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FINANCES ET CYCLES

PAR HENRI GUITTON
Université de DIJON

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I. La cycle modelé par les finances publiques.
II. La flexibilité automatique de finances publiques.
III. La flexibilité dirigée des finances publiques.

Nous ne nous arrêterons pas longtemps sur une question préable: si, comme certains le prétendent, les cycles n'existaient plus, il ne serait plus indiqué de se demander quelles relations existent entre les finances et les cycles. Malgré les apparences, les cycles ne sont cependant pas morts. Oh, sans doute, les guerres mondiales leur ont fait du tort. On a bien l'impression qu'ils disparaissent lors de l'éxécution et de la première liquidation des guerres. On sait cependant que cette disparition n'est probablement qu'une éclipse. Les cycles se sont altérés. Ils ont perdu leur régularité. Mais ils demeurent comme tendances sous-jacentes. De ce fait leur analyse s'est compliquée: il n'y a plus un seul type de cycle. Les divers cycles sont difficiles à dégager: leur durée, leur amplitude sont capricieuses. Par ailleurs, même dans les régimes qui ont prétendu les avoir supprimés, on peut, derrière les apparences, en retrouver par l'analyse, l'existence. Non, les cycles ne sont pas morts, si du moins on a soin de nuancer son vocabulaire, et de ne plus voir en eux des alternances rigoureuses, à l'imitation des oscillations physiques, mais seulement des mouvements récurrents qui font se succéder irrégulièrement des expansions et des contractions de l'économie. On peut même penser que ces récurrences sont inéluctables dans un monde qui doit encore se développer, du fait même que les divers phénoménes économiques ne prennent pas le même temps pour s'accomplir. Les cycles au sens large, pourrait-on dire, ne sont pas autre chose que du temps. Or le temps ne peut pas disparaître. Le cycle lui-même ne peut pas mourir.

Les finances ne sont-elles pas aussi, à leur manière, une manifestation du temps, une façon d'utiliser le temps pour équilibrer les dépenses et les recettes d'une communauté nationale? Une étude récente [1]) vient de nous convaincre de cette étroite liaison entre temps et finances publiques. Les questions maîtresses de la science des finances: rendement et recouvrement de l'impôt, annualité de l'impôt, double imposition, répercussion et effets économiques de l'impôt, gagnent à être repensées dans cet éclairage.

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1) Cf Trévoux, *Temps et Finances Publiques,* Revue, de Science et de Législation financières, 1953, pp. 436-456.

Si les cycles et si les finances sont, tous les deux à leur manière, des expressions du temps, quoi d'étonnant à ce qu'on associe leur étude. Ne serait-ce pas au contraire le fait de ne pas les associer qui serait surprenant et regrettable? Essayons de dégager d'abord les relations entre cycles et finances, en nous demandant si les finances ne sont pas capables de transformer le cycle. Nous rechercherons ensuite les modalités de la fiscalité anti-cyclique.

* * *

I. *Le cycle modelé par les finances publiques*

Je sais bien qu'il règne ici une tradition. C'est seulement dans la troisième partie d'un ouvrage sur les cycles qu'on se préoccupe d'un pareil problème. N'avait-on pas mis un grand soin à ne pas mêler les questions d'observation (première partie) et d'explication (deuxième partie) et les questions proprement politiques? Les finances n'ont pas une expression unique, nécessaire: elles peuvent être ainsi ou autrement; les cycles au contraire ont d'abord paru indépendants de toute politique antérieure, parce que prévisément inéluctables. Mais un esprit malicieux pourrait dire: la troisième partie de votre ouvrage ne devrait-elle pas être suivie d'une quatrième partie? Ne faudrait-il pas se demander ce que devient effectivement le nouveau cycle a observer et à expliquer, apprés l'application de telle ou telle mesure active préconisée dans l'étude des politiques suscitées par le cycle. Ce cycle n'est précisément plus le resultat d'une évolution entièrement spontanée ou naturelle, à supposer même qu'il ait jamais existé un cycle de cette sorte. Ce cycle succédant à une politique cyclique, n'est-il pas un cycle mi-naturel, mi-dirigé, un cycle pour ainsi dire à moitié modelé?

En ce sens l'étude des cycles n'est-elle pas amenée à perdre de son caractère entièrement théorique d'autrefois, ou du moins la théorie du cycle ne deviendrait-elle pas une théorie praxéologique [2]), orientée vers l'action, plus qu'une théorie pure ou contemplative. C'était du reste le caractère de l'économie politique des premiers temps. Qu'on se rapelle le titre de l'ouvrage de Ricardo: „Principles of political economy *and* taxation". C'est le mot *and* qu'il faut en effet souligner. C'est la préoccupation de l'impôt qui avait amené Ricardo à l'économie théorique, laquelle demeurait tout de même politique. [3])

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[2]) Cf Ludwig von Mises, *Human Action, A Treatise on Economics,* 1949.

[3]) Cf T. W. Hutchison, Ricardo's correspondence, *Economica,* août 1953, p. 265. Pour l'auteur de cet article écrit à propos de la publication Strafa, Ricardo serait plus un auteur de science politique qu'un économètre.

Ne pourrait-on pas par analogie écrire aujourd'hui des „Principles of Cycles *and* finance"? N'est-ce pas en agissant sur le cycle que l'on comprend le mieux ce qu'il est? C'est en marchant que l'on fait peut être la meilleure théorie de la marche. [4]) Il semble ainsi que l'on tende aujourd'hui à renoncer à dissocier les points de vue. Il ne s'agit plus tant de voir naître le cycle, tout seul pour ainsi dire, puis d'agir après coup sur lui pour en déformer l'allure. Il s'agit davantage de lier le problème de l'existence du cycle à celui de la politique du cycle, dans un mouvement de pensée simultané et non plus successif.

Il est très significatif à cet égard de lire les écrits récents des maîtres du *National Bureau of Economic Research.* A. Burns donnait en particulier à son 33 ème rapport annuel (mai 1953) un titre significatif: „La recherche sur le cycle *et* les besoins de notre temps". N'est-ce pas encore cette préoccupation pragmatique de comprendre le cycle pour ne pas en subir les meurtrissures? On a du reste fait à l'égard de la *General Theory* la remarque semblable: comprendre le chômage c'était s'employer à le faire disparaître.

On sait bien ainsi que si l'on avait eu à écrire une étude sur Finances et cycles dans les années 20, on aurait eu peu de choses à dire. Déjà avec les années 30, la crise de 1929-31 avait apporté de nouveaux matériaux: la thérapeutique de crise était une première manière de lier l'étude du cycle à celle de la finance. Mais c'est surtout avec les années 40 et 50 que l'optique se transforme. Il fallait plusieurs années pour que la révolution keynesienne ait le temps de transformer les réflexes et les habitudes des responsables de l'économie. Ce qui était mesures partielles et dispersées, tentées comme simples expédients, allait devenir progressivement mesures globales, rassemblées et systématiques. Les „new economics" [5]) devenaient réalités.

Sans doute était-ce plus la grande dépression que le cycle proprement dit, sur laquelle on portait son regard. Mais peu importe, c'est la demande effective, c'est la fonction de consommation, ce sont les dépenses d'investissement, c'est le revenu national, qui allaient devenir les indicateurs du nouveau tableau de bord. Dans cette nouvelle atmosphère on pourrait presque redéfinir la tâche d'un gouvernement: le gouvernement c'est la personne suprême qui

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4) C'est bien le point de vue exprimé par A. Lerner dans *The Economics of Control Principles of Welfare Economics,* New-York, 1946. Cf. A. Chabert, *La prévention des cycles chez Lerner: „La Finance Fonctionnelle". Les Fluctuations Economiques,* Domat, 1954, tome II, p. 100.

5) Cf. *The New Economics,* Keynes'Influence and Public Policy, edited by Seymour E. Harris, 1949.

est chargée d'assurer la stabilité de l'emploi au niveau le plus élevé possible. Ce n'est plus par accident qu'il doit s'occuper du cycle. C'est en ce milieu du XXème siècle sa mission principale, celle dont dépend sa propre stabilité, et la stabilité du monde intérieur et du monde extérieur.

On pourrait facilement se convaincre de cette transformation, en suivant les mutations de l'appareil politique des grandes nations depuis la fin de la deuxième guerre mondiale. C'est un nouveau type de message que *l'Employment Act* de 1946 demande au Président des U.S.A. de transmettre au Congrès au début de chaque session: *The Economic Report of the President to the Congress.* [6])

En France, derrière les façades apparemment peu changées, il se fait aussi des transformations en ce sens: elles sont moins précises, moins spectaculaires, plus diffuses, mais si l'on rassemblait tous les documents relatifs à la politique d'investissement, a l'établissement d'un bilan national, à la discussion du budget, à la recherche et à l'application d'un plan de modernisation et d'équipement, on découvrirait les mêmes préoccupations.

Ce qui était latéral cherche à devenir axial, ce qui était partiel tend à devenir général. Les finances publiques deviennent un instrument au service de la stabilité. L'expression proposée par Lerner est significative: c'est la „finance fonctionnelle". Nouvelle manière d'exprimer que le règne de la neutralité des finances a pris fin. Il n'est du reste plus possible, en aucun domaine, d'être neutre, dans un monde comme le nôtre. Même quand ons se dit neutre, on est malgré soi engagé ou compromis. Les finances publiques sont appelées à renoncer à cette neutralité, qu'elles n'ont du reste jamais, même quand elles le proclamaient, intégralement respectée. La tâche du financier rejoint celle du conjoncturiste. Les trois chapitres: Budget et Conjoncture, Impôt et Conjoncture, Dette Publique et Conjoncture, ne peuvent plus demeurer annexes ou marginaux. Ils deviennent les parties maîtresses de la finance contemporaine.

C'est en pensant à cette liaison nécessaire, à réaliser dans la transparence et la rationalité la plus grandes, que nous voudrions apporter quelques réflexions. Elles se rattachent aux considérations qui ont donné lieu à une littérature déjà abondante dans les pays de langue anglaise. Il y a certes plusieurs manières de tracer les linéaments de cette finance fonctionnelle dynamique. Il y a plusieurs idées directrices qui se présentent, plusieurs clivages qui sont possibles.

Convenons d'abord que si la politique financière est liée à la politique monétaire, nous excluons de cette recherche l'étude des mesures monétaires anti-cycliques. Nous écartons aussi l'étude des

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6) Cf. Hansen, *Business Cycles and National Income,* 1951, p. 529.

mesures économiques qui ne mettent pas en jeu, directement au moins, le fonctionnement des finances publiques: politique des salaires, politique des prix, politique des échanges commerciaux, politique de contrôle des mouvements boursiers, etc. Bien évidemment, une vue totale de la régularisation du cycle exigerait que l'on fasse le lien entre les mesures financières au sens strict et l'ensemble de ces autres mesures. En matière économique chacun sait bien qu'on ne peut pas isoler très longtemps tel ou tel type de problème. Soyons conscient des dangers d'une étude dissociée de toutes les autres. Mais limitons-nous quand même à l'étude financière. Elle est déjà vaste et complexe.

Faisons alors délibérément le tour des grands problèmes. Quand on parle de conjoncture ou de cycle au sens étroit, on ne pense qu'aux mouvements courts de l'économie (disons dans une période inférieure à 10 ans). Mais au sens large, quand on s'occupe de finances, les mouvements longs, qu'il s'agisse de croissance, ou de longues vagues, ne peuvent être éliminés. On peut donc imaginer des relations entre finances publiques et mouvements économiques dans la courte et dans la longue période. Pour chacune de ces périodes, on doit envisager les relations dans l'expansion et dans la contraction. Pratiquement nous nous bornerons ici à une étude de courte période.

Si l'on se tourne du coté des finances publiques, voici que d'autres options se présentent. Selon le but envisagé, on pourrait retenir la distinction entre les mesures qui visent seulement à amortir un mouvement *(cushioning)*, et celles plus ambitieuses qui s'attaquent aux causes du mouvement pour les compenser *(offsetting)*.[7] Selon les points où portent les interventions, on imagine que les mesures peuvent agir sur les variables exogènes[8] (structurelles ou institutionnelles), elles sont alors indirectes; elles peuvent agir sur les variables endogènes, elles sont alors directes. Enfin, on peut envisager des mesures qui entrent d'elles-mêmes en action, sans intervention humaine, elles sont automatiques: et des mesures qui exigent pour entrer en action, un regard, un jugement, une direction, elles sont alors dirigées.

Pour une étude limitée comme celle-ci, c'est à cette dernière opposition seule que nous nous arrêterons: elle est simplifiée, mais très révélatrice de deux esprits possibles. On sait déjà qu'entre finances et conjoncture on a déjà posé le problème de l'élasticité. On avait coutume surtout de parler d'élasticité du rendement des impôts.

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7) Cf. Hansen, op.cit. p. 508.

8) Cf. A. Smithies, *Business Cycles Analysis and Public Policy, Conference on Business Cycles,* New-York, 1951, p. 405; J. Tinbergen et J. J. Polak, *The Dynamics of Business Cycles,* Chicago, 1950, p. 267.

Nous élargirons l'horizon et nous parlerons de l'élasticité des finances. Les Américains usent du terme de flexibilité. Elasticité ou flexibilité, deux mots qui évoquent l'idée d'une faculté de réponse des finances à la conjoncture; mais nous ajouterons, qu'en répondant à la conjoncture, les finances transforment aussi cette conjoncture, avec la prétention de la stabiliser.

Nous allons donc distinguer deux types d'élasticité ou de flexibilité en vue de la stabilisation. L'élasticité ou la flexibilité passive ou automatique. L'élasticité ou la flexibilité active ou dirigée.

II. *La flexibilté automatique des ffinances publiques*

C'est elle qui est la plus tentante pour l'esprit, la plus simple en même temps, mais cependant en fait la moins satisfaisante. Elle réclamera moins de développements que la suivante.

C'est par *a contrario* que l'on découvre les vertus de l'automatisme. Quand l'automatisme ne règne pas, il faut s'en remettre à des hommes du soin de prendre des décisions. Or ceux-ci sont sujets à l'hésitation et à l'erreur. *Quand* doivent-il intervenir, et *que* doivent-ils décider? Ce sont là de redoutables questions. Une décision prise à contre temps peut amplifier une fluctuation que l'on cherche cependant à amortir. Pour éviter de pareilles méprises, on aimerait disposer de signaux avertisseurs qui déclancheraient instantanément, et sans discussion, tel ou tel mécanisme compensateur, par exemple lorsque tel niveau de prix ou de chômage serait atteint. Ce déclanchement fait penser au jeu d'un thermostat. Les Américains ont donné des noms à de tels mécanismes; ils parlent de „built-in flexibility" ou d'„automatic stabilizers".

De quoi s'agit-il essentiellement? De surveiller le niveau de l'emploi immédiatement constatable, plus généralement le niveau du revenu national, celui-ci demandant certains calculs plus ou moins longs. D'organiser un réglage automatique de ces deux grandes composantes du budget que sont l'impôt et la dépense gouvernementale. L'impôt joue bien en effet le rôle d'une pompe aspirante, et la dépense gouvernementale celui d'une pompe refoulante. On peut alors concevoir plusieurs types de régularisation automatique. Utilisons la distinction proposée par les auteurs italiens (d'Albergo) [9]) entre la *sensibilité* et *l'extensibilité* de l'impôt, et en l'étendant à l'ensemble des entrées et sorties budgétaires. Un système fiscal étant donné, on peut compter sur sa flexibilité propre pour ajuster son rendement à la conjoncture, et c'est la sensibilité. Ou bien, on peut concevoir que les règles du système se modifient au cours

9) E. d'Albergo, Della sensibilita dell'imposte in rapporto alle fluctuazioni economiche, *Riforma Sociale*, 1934, p. 532.

même des phases conjoncturelles pour réaliser l'adaptation, et c'est l'extensibilité.

A. Le régulateur fiscal pourrait être constitué par un impôt progressif sur le revenu à paiement immédiat, car il convient d'éliminer les retards entre la variation du revenu et le produit de impôt. La sensibilité de l'impôt suffit-elle alors à assurer l'automaticité du rendement? C'est une question délicate. On peut enseigner que l' augmentation des rendements fiscaux par la seule augmentation du revenu suffit à freiner le boom. On a cependant quelque doute a admettre que l'accroissement des dépenses d'impôts des particuliers les pousse à diminuer leurs dépenses de consommation. De la même manière il faudrait rechercher si en phase de diminution des revenus, la diminution corrélative spontanée des rentrées fiscales suffit à maintenir les dépenses de consommation des particuliers. En tout cas, ne n'est pas les seul fait de la progressivité de l'impôt qui assurerait cette automaticité. L'efficacité du systéme automatique dépend de la structure des revenus, et mieux encore de la façon dont se conserve ou s'altère cette structure durant la croissance et la décroissance cyclique. Il faudrait au surplus savoir dans quelle mesure varient les dépenses des particuliers, en réponse aux variations des prélévements fiscaux, selon les tranches de revenu et pour une échelle donnée de progressivité. Il n'est pas sûr que la variation spontanée des rendements absolus agisse dans un sens amortisseur de la conjoncture. Si le nombre des petits revenus représente une forte proportion de l'ensemble, la progressivité n'a pas une influence stabilisatrice.

B. Si la sensibilité, c'est à dire l'élasticité passive, n'est pas efficace, on pense alors à mettre sur pied une élasticité active, disons une extensibilité, mais automatique. Les taux de l'impôt progressif varieraient positivement durant la phase conjoncturelle de montée des revenus, et négativement durant la phase conjoncturelle de descente. Mais cette variation s'effectuerait selon un système d'èchelle mobile, indépendant de la volonté ou de la discussion humaines. On devine toutes les difficiles mises au point inhérentes à tout système d'échelle mobile. Il y aurait du reste ici superposition de deux types de difficultés: celles du repère à choisir pour l'échelle mobile (indice des prix, indice des revenus), et celles de l'aménagement de la progressivité.C'est le choix du taux standard applicable à la première tranche des revenus, dont les variations atteignent la quasi-totalité des titulaires de revenus, qui a l'importance majeure: c'est l'action sur cette tranche qui a l'effet maximum sur le pouvoir d'achat global.

A supposer que cette fiscalité anti-cyclique automatique puisse être organisée, elle devrait être complétée par l'automaticité des variations concomitantes du flux des dépenses gouvernementales.

Rentrent en particulier dans ces dépenses liées à la conjoncture, les dépenses d'assurance chômage et les subventions agricoles. Précisément le niveau du chômage peut servir de base de référence objective, à partir de laquelle se déclancheraient les dépenses appropriées. Le salarié devenu chômeur cesse de payer l'impôt et devient créancier de la prestation de chômage, laquelle augmente les dépenses publiques. Ainsi en serait-il également des paiements servant à soutenir les prix agricoles lorsque ces prix tombent en dessous d'une certaine cote d'alerte.

L' application d'un système de sécurité sociale de type automatique permet de bien comprendre la conjonction de dépenses et de recettes, variables avec la conjoncture. Beveridge a soulevé ce problème. Esquissons seulement les principes de cette para-fiscalité. On a dit de la Sécurité sociale qu'elle était un pool. Précisément, un réservoir peut jouer le rôle d'un régulateur de débit, si les vannes d'entrée et les vannes de sortie s'ajustent mécaniquement aux besoins du moment.

En période d'expansion cyclique, alors que les revenus privés croissent, il est rationnel d'augmenter le taux des cotisations, et de diminuer le montant des prestations. Inversement en période de contraction, alors que les revenus décroissent; c'est l'inverse qui serait effectué: il conviendrait de diminuer les taux des cotisations et d'augmenter le montant des prestations. On devine ce que pourrait être le rôle amortisseur d'une sécurité sociale pourvue de cyclicité, par élasticité active automatique contrariée des cotisations et des prestations. La sécurité sociale pourrait théoriquement déplacer et redistribuer dans le temps les revenus des bonnes aux mauvaises périodes, de même qu'elle a d'abord cherché à les redistribuer dans l'espace.

Mais pour que le système soit efficace dans la pratique, il faudrait trouver un bon indicateur de l'état d'expansion et de contraction des revenus. Or on sait la difficulté de cette découverte. Il suffit d'évoquer l'organisation d'un système d'échelle mobile des salaires.

Cette flexibilité automatique suppose au surplus la malléabilité du corps social. Or on sait le rôle des habitudes à ce sujet. Le corps social est affecté d'inertie. La réponse aux changements, des sujets payeurs ou récepteurs est lente et décalée.

Une politique de stabilisation automatique garde des partisans, spécialement dans l'économie américaine. Le professeur Hart en est un représentant. [10]) D'autres auteurs ont même estimé déjà la part de la „built-in flexibility" dans le budget fédéral U.S.A. R. A.

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[10]) A. G. Hart, Timing and Administratering Fiscal Policy; How to give Relevant Counsel, *American Economic Review, mai* 1948, et du même auteur l'ouvrage: Money, Debt and Economic Activity, 1948.

Musgrave et M. Millet considèrent que ces stabilisateurs automatiques sont capable de réduire de un tiers l'amplitude des fluctuations. [11])

Malgré cette vue optimiste des choses, il faut bien se représenter que les stabilisateurs automatiques ne sont pas une panacée. [12]) Redisons qu'ils se présentent comme des stratagèmes séduisants. Nous parlions de thermostat. L'image semble assez bonne en effet. L'homme fixe la température qu'il veut obtenir, et c'est la chaudière elle-même, sans l'intervention nouvelle du constructeur, sans appréciation capricieuse ou erronée du chauffeur, qui fait règner automatiquement cette température.

Mais peut-il en être de même en économique? Ce serait avantageux si l'on pouvait dire oui. Les avocats de l'économie proportionnelle ont pu déjà le penser. Puisque les déséquilibres viennent du fait que les éléments économiques ne varient pas en harmonie, mais en disparité, si c'est la disparité qui engendre la fluctuation, on se dit tout naturellement: „réduisons la disparité, et nous réduirons aussi les fluctuations. Faisons le salaire, la monnaie, l'impôt proportionnels . . . et la stabilisation nous sera donnée par surcroît". Illusion finale tout de même dans un monde soumis aux incertitudes, aux anticipations, aux erreurs, au fait que le présent n'est pas la simple reproduction de l'évolution passée. Les économistes d'aujourd'hui ne croient plus aux miracles de l'automatisme. [13])

Ce n'est pas à dire que les mécanismes, sur lesquels compte la flexibilité automatique, soient sans valeur. Mais cette valeur n'est pas absolue. Une politique ne peut pas être aveugle. Elle demeure toujours une prudence, une vertu, un regard constamment ouvert sur le milieu dans lequel elle prend naissance, et donne ses premiers résultats. Continuons à reconnaître la validité d'une finance fonctionnelle, mais non plus dans une automaticité budgétaire. Quelles seraient donc les modalités d'une activité budgétaire dirigée, au service d'un amortissement de la conjoncture?

* * *

III. *La flexibilité dirigée des finances publiques*

Le problème reste le même: agir par le budget sur les variables globales de l'économie: investissement, consommation, revenu national en vue d'en régulariser le cours, mais le faire désormais, non

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11) R. A. Musgrave et M. Millet: „Built-in Budget Flexibility", *American Economic Review,* mars 1948.

12) Cf. Hamberg, *Business Cycles,* 1951, p. 553.

13) Cf. Preiser, *Die Zukunft unserer Wirtschaftordnung Probleme und Möglichkeiten,* 1949.

plus une fois pour toutes, en laissant jouer aveuglément des mesures dont on n'est plus maître. Autrement dit encore, il s'agit de manipuler avec intelligence, sans se lier par avance, les deux leviers que sont l'impôt et la dépense. C'est ce que les Américains appellent „a managed compensatory program". [14])

On peut distinguer plusieurs aspects de la question. Nous laisserons de coté l'aspect constitutionnel. Du moment que l'automatisme et l'inconscience ne règnent pas, c'est à dire que les choses ne se font pas toutes seules, il faut bien installer en effet des organes d'action. Qui déterminera la règle d'action? Qui l'apliquera? Hansen parle de „signposts" établis par le Congrès, qui serviront de guides à l'éxécutif. Les Américains emploient un terme significatif; ils parlent d'une „discretionary policy", d'une politique discrétionnaire. Le mot discret nous parait en effet fort bien convenir. On sait ce qu'il évoque: un certain effacement, de la prudence, du jugement, du discernement. Toute politique au sens noble ne devrait-elle pas être toujours discrète en ce sens?

En l'occurrence, la discrétion s'exprime par une technique de flexibilité dirigée. On peut distinguer avec Hamberg [15]) trois types de flexibilité aménagée, selon la manière dont on joue sur les dépenses et sur les recettes. En allant du simple au complexe: 1°) la flexibilité des dépenses associée à une rigidité des taux fiscaux; 2°) la flexibilité des taux fiscaux associée à une rigidité des dépenses; 3°) la flexibilité associée des taux fiscaux et des dépenses.

Ces trois manières devraient être étudiées dans les deux hypothèses d'expansion et de contraction, et analysées au surplus, pour rester dans l'optique keynesienne qui leur a donné naissance, en recherchant leurs effets sur la consommation et sur l'investissement. On pourrait du reste évoquer à cette place la remarque pertinente de N. Kaldor: [16]) l'action anti-cyclique n'est pas du tout de la même efficacité, selon qu'elle s'exerce dans la contraction pour hâter le reprise, ou dans l'expansion pour empêcher la dépression. L'efficacité s'obtient plus facilement dans la première hypothèse que dans la deuxième. C'est le flair, plus encore ici que la discrétion, nous voulons dire c'est le choix du moment le plus opportun pour agir, qui importe au plus haut point, et qui fait de cette politique un art véritable où l'on n'est jamais sûr de réussir.

Constatons enfin que les trois politiques de flexibilité dirigée aboutissent toutes les trois à obtenir un budget non équilibré, soit positivement (surplus) durant l'expansion, soit négativement (défi-

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14) Cf. Hansen *op. cit.* p. 546.

15) Hamberg, *op. cit.* p. 554.

16) N. Kaldor, A Model of Trade Cycle, *Economic Journal,* 1940.

cit) durant les contractions. C'est précisément l'existence du déséquilibre, dans un sens ou dans l'autre, qui doit réagir sur le niveau à stabiliser du revenu national.

1° Flexibilité des dépenses associée à une rigidité des taux fiscaux.

L'application la plus connue de cette méthode est le système dit du „deficit spending", préconisée pour sortir d'une dépression prolongée. L'Etat réamorce par ses dépenses appropriées une pompe désamorcée *(pump priming)*, et naturellement sans demander quoi que ce soit de nouveau aux impôts actuels, auxquels le contribuable est tant bien que mal habitué. Nous disons dépenses appropriées: les unes correspondent à une oeuvre à réaliser, c'est à dire qu'elles comportent une contre-partie (travaux publics), les autres ne comportent pas de contre-partie, elles se traduisent par des transferts: ce sont par exemple les dépenses de sécurité sociale et les subventions. Ces dépenses doivent aboutir à des dépenses des particuliers, et élever ainsi le niveau de la consommation et par là le revenu national. On sait que l'on peut imaginer et traduire un effet multiplicateur à travers le temps d'un déficit budgétaire initial. Mais il faut avoir le soin d'ajouter que cet effet multiplicateur n'est effectif que si la hausse des revenus privés est suivie d'une hausse correspondante des dépenses privées: or cela n'est pas certain, mécanique, immédiat, et dépend du comportement des couches sociales qui en bénéficient.

Il est plus difficile de déterminer l'effet de cette politique sur l'investissement: cet effet est moins certain que l'effet produit sur la consommation. On peut cependant penser que, dans la mesure où les affaires privées bénéficient des nouvelles dépenses du gouvernement, surtout si la confiance en l'avenir est réveillée, il peut en résulter un accroissement des investissements.

On est assez d'accord sur le fait que la politique symétrique renversée d'une contraction des dépenses gouvernementales associée à une fixité des taux fiscaux a en période d'expansion des effets moins intenses et plus douteux, à la fois sur l'investissement et sur la consommation. La réduction des dépenses si elle peut provoquer des surplus budgétaires n'a pas d'action sur la fonction de consommation. Bien plus encore, la réduction des dépenses ne tempère nullement l'incitation à investir des entrepreneurs fascinés par leur propre réussite.

En somme la seule efficacité certaine de ce système se ramène à l'action sur la consommation durant la contraction.

2° Flexibilité des taux fiscaux associée à une rigidité des dépenses gouvernementales.

On doit distinguer les deux hypothèses: réduction des impôts

en période de contraction, augmentation des impôts en période d'expansion. Il est du reste difficile de raisonner parfaitement sur ces deux hypothèses sans préciser sur quel système fiscal antérieur s'appliquerait cette mobilité dirigée des taux. Il faudrait se demander si le système antérieur utilisait la progressivité des taux et selon quelle échelle, si les impôts sont assis sur le revenu ou sur la dépense, si le impôts sont perçus sur les personnes ou sur les entreprises. On peut tout de même énoncer les propositions suivantes:

a) La hausse des taux obtenue par extensibilité positive peut freiner le boom, surtout s'il s'agit d'un impôt progressif déjà consacré par l'habitude. Un impôt ainsi aggravé réduira à la fois la propension à l'épargne des hautes tranches de revenus, et la propension à la consommation des basses tranches. Appliquée à temps, cette élévation des taux peut être un frein efficace.

b) La baisse des taux peut-elle hâter une reprise dans une période de contraction prolongée? Si les impôts étaient initialement très élevés, une réduction peut avoir des effets à la fois mécaniques et psychologiques très favorables sur l'investissement qu'il s'agisse d'impôt sur la personne ou d'impôt sur l'entreprise. Vis à vis de la consommation une réduction des taux a des effets différents selon qu'elle s'applique à des hauts ou à des bas revenus: pour les hauts revenus la réduction peut stimuler l'épargne plus que la consommation, mais pour les bas revenus, pour les sujets qui vivent principalement de salaires et dont la propension à la consommation est forte, la réduction des impôts stimule la consommation davantage que l'épargne.

3° Flexibilité associée des dépenses et des taux fiscaux.

C'est au fond l'hypothèse la plus réelle, car les deux précédentes ont surtout pour but de faciliter la recherche des causes. Si l'on retient l'idée qu'en période d'expansion la flexibilité positive des taux fiscaux a plus d'efficacité que la flexibilité négative des dépenses comme frein du boom, et qu'en période de contraction la flexibilité positive des dépenses a, à l'inverse, plus d'efficacité que la flexibilité négative des taux fiscaux comme facteur de reprise, on se rend compte de l'intérêt qu'il y a à combiner au travers d'un cycle complet les deux attitudes que nous avons jusqu'alors analysées isolément.

On pourrait déjà reconnaître qu'est seule efficace la flexibilité positive, qu'elle s'applique à la vanne d'entrée ou à la vanne de sortie du pool budgétaire. Les interventions par négation ou par réduction (c'est le cas de la déflation) sont en matière économique moins agissantes que les interventions par affirmation ou par aug-

dissymétrie des mécanismes économiques, que J. R. Hicks a si

justement soulignée dans l'élaboration de son modèle cyclique. [17])

Il n'est pas exclu que, même dans chaque période, il ne faille pas associer à la mesure la plus efficace, la mesure la moins efficace. Les réductions de dépenses peuvent jouer secondairement dans les expansions, et les réductions d'impôts subsidiairement dans les contractions. Il ne faut pas exclure les effets favorables d'une aide réciproque.

On voudrait pouvoir récapituler ces actions diverses dans une formule unique. Cette formule a été suggérée par Hansen et par Hamberg. [18]) Hansen a proposé l'expression d'un multiplicateur de réduction d'impôt, ou d'allégement fiscal. Quels qu'en soient les inconvénients mécaniques simplificateurs, la formule du multiplicateur manipulée avec discrétion rend des services. Il existe bien un effet multiplicateur des impôts. [19]) Hansen l'envisage du point de vue favorable à la consommation. Rappelons son raisonnement: soit T une réduction d'impôt, l'accroissement de la dépense privée qui en résulte est c'T, en appelant c' la propension marginale à la consommation du revenu disponible après taxation. Mais cet accroissement de dépenses met en jeu le multiplicateur classique k, de sorte que finalement l'augmentation de dépenses privées provoquée par la réduction d'impôt sera kc'T. Le multiplicateur de réduction d'impôt est ainsi kc'.

Nous pensons que si cette formule est valable pour un allégement fiscal, elle l'est aussi pour un alourdissement fiscal. Elle peut être aussi étendue aux hypothèses d'augmentation et diminution des dépenses publiques. Adoptons cette fois le langage de Hamberg: appelons T le produit des impôts et E les dépenses publiques. Nous pouvons concevoir un ΔT positif ou négatif, et un ΔE positif ou négatif. On recherche alors comment ces différences se conjuguent, et c'est la représentation des deux flexibilités associées.

En cas d'expansion nous retenons que ΔT sera positif et ΔE négatif. En cas de contraction nous savons que ΔE sera positif et ΔT négatif. Recherchons les effets multiplicateurs. Si nous appelons a la propension marginale à la consommation de ceux qui bénéficient d'une augmentation de ΔE positif, (dilatabilité) ou de ceux qui souffrent d'une diminution de ΔE négatif, (compressibilité), et si de la même manière nous appelons b la propension marmentation. On pourrait voir là une nouvelle manifestation de la

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17) Cf. J. R. Hicks, A Contribution to the Theory of the Trade Cycle, Oxford, 1950, p. 45 et 101.

18) Cf. Hansen, *op. cit.* p. 555 et Coulbois, Les fluctuations économiques dans la pensée de Hansen, in Fluctuations économiques, déjà cité, 1954, tome I; p. 236 - Hamberg, op. cit. p. 555.

19) Cf. Trévoux, article cité, p. 455.

ginale a la consommation des groupes de contribuables qui bénéficient (dilatabilité) d'une réduction de T, ΔT négatif ou de ceux qui souffrent (compressibilité) [20]) d'une augmentation de T, ΔT positif, nous voyons que dans l'hypothèse d'expansion, l'effet multiplicateur s'exprime par le freinage des dépenses $k(b\Delta T - a\Delta E)$, et dans l'hypothèse de contraction, l'effet multiplicateur s'exprime par l'augmentation des dépenses $k(a\Delta E - b\Delta T)$.[21])

En adoptant enfin l'expression keynesienne appliquée au revenu national Y, et en appelant C la consommation globale; I l'investissement autonome et $\bar{I}$ l'investissement induit, on a

$$\Delta Y = \Delta C + \Delta I + \Delta \bar{I}$$

Il faudrait alors rechercher dans quelle mesure, en cas d'expansion $k(b\Delta T - a\Delta E)$ freine ΔC, ΔI, $\Delta \bar{I}$, donc ΔY; et dans quelle mesure, en cas de contraction, $k(a\Delta E - b\Delta T)$ accélère ΔC, ΔI, $\Delta \bar{I}$ donc ΔY.[22])

C'est à partir d'un tel schéma qu'il conviendrait de poursuivre deux séries d'études sont nous donnons ici seulement l'idée:

a) Il serait utile d'approfondir l'analyse abstraite en mettant au point de nouvelles expressions de ces flexibilités. Il faudrait dénommer les coefficients d'élasticité suivants: [23])

$$\frac{\Delta C}{C} : \frac{k(a\Delta E - b\Delta T)}{D} \qquad \frac{\Delta I}{I} : \frac{k(a\Delta E - b\Delta T)}{D} \quad ; \quad \text{etc...}$$

b) Il faudrait ensuite amorcer des études concrètes pour tenter la vérification statistique des propositions élaborées par le simple raisonnement. Les expériences sont évidemment difficiles; cela tient à ce que les données globales sont difficiles à établir; et du reste, même à supposer que ces données soient élaborées, les calculs portant sur ces données globales ne seraient peut être pas probants. Il faudrait distinguer les différences ΔE, ΔT, par secteurs et respecter les réalités hétérogènes. [24])

De telles études seraient le point de départ de la constitution de

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20) Sur les expressions de dilatabilité et de compressibilité Cf. J. M. Jeanneney, La fonction keynésienne de consommation à l'épreuve des faits, *Revue des Sciences Economiques*, Liège, sept. 1952, p. 166.

21) On voit que le kc'T de Hansen correspond au kb Δ T de Hamberg.

22) Cf. P. A. Samuelson, The simple mathematics of Income Determination, in Income, Employment and Public Policy, Essays in Honor of Alvin H. Hansen, 1948, p. 133; et dans ce même volume, p. 317, R. L. Bishop, Alternative Expansionist Fiscal Policies. A diagrammatic Analysis.

23) Nous appelons D les dépenses des particuliers avant ΔE et ΔT. Nous ne donnons que deux de ces coefficients pour ne pas encombrer le texte.

24) On sait bien par exemple que les vérifications du principe d'accélération faites globalement n'ont rien donné de positif.

la science des politiques anti-cycliques, le début d'une théorie de la stabilisation conjoncturelle.

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Conclusion

Pour le moment la politique anti-cyclique demeure plus empirique que scientifique. Nous n'avons pu qu'esquisser du reste une direction de recherches, laissant encore dans l'ombre une multitude de problèmes conjoints. Il conviendrait dès maintenant de rechercher les autres aspects de la finance fonctionnelle: notamment l'influence sur la conjoncture des procédés de financement des investissements publics, et nous songeons ici aux répercussions de l'emprunt. Et puisque nous parlons de l'emprunt, il y aurait à se demander quel est le rôle de la dette publique, de son poids, de son aménagement, dans la stablisation de la conjoncture. Ce serait s'élever des considérations à court terme aux vues à longue échéance. Nous nous sommes volontairement limité, sachant bien ce que nous avons perdu par cette limitation.

En tout cas, au fur et à mesure que l'on comprendra mieux les possibilités et les limites d'une politique financière anti-cyclique, on s'acheminera progressivement vers une meilleure connaissance de ce mouvement prolongé, à la fois spontané, déterminé par les variables endogènes, *et modelé* par les finances, dont nos successeurs diront s'il mérite encore le nom de cycle.

FINANCE AND THE BUSINESS CYCLE

BY PROFESSOR HENRI GUITTON

SUMMARY

The business cycle and public finance are both expressions of the age of economics. It is therefore quite natural that the relation between the two should be studied. In spite of indications to the contrary, the cycle has not disappeared. In fact, the new forms adopted, at first unconsciously, by finance have already affected the cycle. The question now arises whether it would be possible, by conscious action, to stabilize business conditions in future. Just as Ricardo wrote his "Principles of political economy and taxation," it is attempted here to outline the "Principles of the Business Cycle and Finance." The cycle is shaped rather than corrected by finance.

In this financial praxiology we have the choice between various possibilities. The one chosen here is intended to compare automatic flexibility with the flexibility controlled by public finance.

Automatic flexibility, if it could be realized, is a temptation. It might be an ideal. Automatic control should be ensured of the two major components of the budget, taxation and Government expenditure. Such control could be realized by a certain sensitivity, i.e. a natural elasticity of the taxes with a fixed rate and of expenditure, adapted to business conditions. It may also be obtained by automatic extensibility, i.e. by variations of the rates of taxation according to a kind of sliding scale. One can also conceive a social security made cyclical by an automatic, opposite, elasticity of assessments and allowances.

This built-in flexibility has its advocates, but it is an illusion.

Controlled flexibility is more delicate, but also more effective. It requires discretion. It is an art, a policy in the noble sense of the word. It can be analysed, as was done by Hamberg, investigating the influence on consumption and investments of the following three techniques: (a) flexibility of expenditure in conjunction with rigidity of the rates of taxation; (b) flexibility of the rates of taxation in conjunction with rigidity of expenditure; (c) flexibility of rates of taxation as well as of expenditure. The latter form would seem the most desirable. In a period of expansion the positive flexibility of the rates of taxation is more effective as a brake on the boom than the negative flexibility of expenditures. In a period of contraction the positive flexibility of expenditure is more effective as a factor of recovery than the negative flexibility of the rates of taxation.

The formula of the tax-reduction multiplier, proposed by Hansen, can be generalized. Such a generalization renders it possible to

assess the combined effect of the variations brought about in the tax yield and the volume of Government expenditures. The theoretical, and later the statistical, analysis of a formula thus generalized might constitute the basis of a science of anti-cyclical finance.

VALUATIONS OF PROPERTY FOR TAXATION *)

BY C. LOWELL HARRISS

Associate Prof. of Economics, Columbia University, New York City

Visiting Professor, Nederlandsche Economische Hoogeschool, Rotterdam

Valuation is done by people, human beings with all their strengths and limitations. The quality of valuations will depend to great degree upon the quality of the persons making them, the tools and assistance available, and the conditions under which valuers must work.

These points are so obvious that I hesitate to raise them, especially since they are by no means new. Yet they apply to problems that to a considerable degree remain unsolved, at least in America. More important, they take on *new seriousness as tax rates seem destined to stay at high levels.* An error in valuation is not minor if the tax rate is 30, 50, or 80 per cent! [1])

Moreover, in a world that seems unlikely to "settle down" soon, *relative* values of different properties are certain to change. A set of property value figures which are good at one time may contain serious discrepancies a year later not only in listed securities [2]). The whole process of investment will likely be distored, perhaps significantly, if some kinds of investment are more accurately valued for heavy taxation than the others.

I. *Introduction*

I have worked in some detail on two types of American taxes requiring property valuations. The property tax, an annual tax levied, almost exclusively by localities, is imposed at rates generally

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*) This article is a development of comments made at the Seventh Congress of the International Fiscal Association, Paris, Sept. 1953. Some of the study underlying this report was done under a grant from the Columbia University Council for Research in the Social Sciences. Work done for the Finance Study of the Mayor's (New York City) Committee on Management Survey also contributed directly.

1) The owner suffers if the valuation is too high. Other taxpayers, making up the revenue loss, suffer if valuation is too low.

2) The proposal that values for tax purposes be set "once for all," or even for long periods, seems to me completely unacceptable for any taxes except those at very low rates indeed. In some cases, the possibilities of tax capitalization might induce me to modify my conclusion; I have not yet analyzed this phase of the problem. Obviously, however, if tax rates are high and the tax value fixed, new kinds of risks enter into investment and capital formation. In the United States "once for all" valuation would not be permissible under our constitution.

from 1,5 to 3 per cent of current market price; even when business is good, the annual tax will often be 50 per cent, sometimes very much more, of the net amount remaining as income to the owner. The tax is based on a value estimate made ordinarily by a local official at intervals from one to 10 years, generally from 2 to 4 years; in fact, the tax in most localities applies primarily to land and buildings. [3]) Property owners have varying amounts of opportunity to protest valuations made by the Government appraisers. [4]) Death and gift taxes are imposed by the national and state governments at progressive rates ranging to around 80 per cent. The tax applies to values of gratuitous transfers, the values being estimated first by the taxpayer or his representatives and then reviewed by government officials and sometimes by the courts.

Both of these taxes present valuation problems different from those of most of the valuation problems of income, sales, turnover, or customs taxes. Valuations for these latter taxes can usually rest upon a price determined in a market by parties with opposing interests. For the great bulk of cases, the tax officials can properly assume that the value resulting from the market's dealings is as good as any and accept it. For the income tax there is often an additional assurance that an error in valuation — one year's depreciation, for example — will be largely offset by an opposite error later. Property and death taxes, however, rest heavily on judgments of value by human beings, jugdments that are unprotected by built-in offsets or by market bargaining about the particular properties involved. [5])

In America we have tolerated valuations of very poor quality. Some famililiarity with British experience leads me to believe the valuations there are far from uniformly good. Continental tax valuations are also apparently somewhat less than perfect. The consequences are bad — and to considerable degree unnecessary.

When tax rates are high, discrepancies in valuation can produce indefensible irregualities in tax burdens, and decisions on broader investment and economic matters may be distored. Moreover, the evil effects of law evasion and the wide latitude for administrative

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[3]) Furniture, jewelry, inventory of businesses, securities, cash, and other types of non-real-estate property are taxed to varying degree in some localities. In most cases, the tax on such property is administered very poorly, and the law is often almost a dead letter.

[4]) The appeal system means that valuations too high will tend to be protested by the taxpayer while those too low will remain unchallenged. A downword bias in values used in computing tax is certain to result.

[5]) Some of the more troublesome problems of tariff valuation arise when Government officials will not accept the reported market value of the transaction or of the currency involved.

discretion seem certain to grow when the foundation of a tax is haphazard and not firmly grounded on clear, objective fact.

Today there is a new reason to deplore bad tax valuation: The economic integration of Europe may be impeded by the practical inability to rely upon tax valuations of widely varying quality; [6]) death and property (capital or wealth), taxes, for example, could hardly form an important part of a unified tax system if the very bases of the taxes, value estimates, inspired no general confidence.

II. *Some Problems of Property Valuation.*

Brief comment on some of the actual issues of property valuation may help the person who is not in working contact with the problems to understand them better. The illustrations here, selected largely from my own experience, are examples only.

A. *What is the value goal?*

"Value" is a term somewhat like "beauty" or "humor." We use it successfully for many purposes without precise definition. However, when we attempt careful definition, we may find wide differences of view about what "value" does mean in fact, just as we have different ideas about what is funny, witty, or beautiful.

Partly because of the many meanings and nuances of meanings of the term "value," it is hard to select one concept and then hold to it. As one after another hard problem arises, we humanly attempt solution by slipping into the use of other value concepts. The result, however, is not only inequality but also loss of firm guides and bases for judging results. Yet defining a goal which in fact can be applied consistently seems at times impossible. [7])

B. *What are the physical characteristics of the thing to be valued?*

Assuming that the items to be valued have been disclosed [8]), there remains the job of finding precisely what each is physically. The valuer must know more than that there is a "small farm" or

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[6]) If values in one area are generally low, higher rates can offset to some extent the general effect of undervaluation. When many areas are part of the same economic system, however, it becomes extremely difficult in practice to get uniformity in total tax loads. American States have tried „to equalize" property taxes among localities but without great success.

[7]) Some formulation of current market price seems generally acceptable as the value norm. Yet it can fail when applied to things that are not being sold — a railway road bed — or that cannot be sold—contingent interests is a personal trust.

[8]) Discovery of property is itself a major problem of taxation, but one excluded from discussion here. Value may in fact depend partially upon the extent to which a type of property lends itself to concealment.

"large office building" or "used truck" or "diamond necklace." For real estate, for example he needs to know dimensions of land and buildings, the number and type of improvements, the quality of the land, the state of repair of buildings (as well as the original details of construction), the degree of physical deterioration of furnaces, elevators, etc. Maps and up-to-date surveys are essential. Pictures of buildings, descriptions from original construction plans, and permits for building changes are also needed to learn what are the physical aspects. Yet more is needed, an on-the-spot examination by a person (or staff) qualified to judge technical conditions, generally an architect or engineer. Obviously, there are limits to the thoroughness of skilled engineering investigation possible and needed, but when tax rates are high, poor physical inspection of properties is bound to lead to significantly bad values. Jewelry, art objects, furniture, business inventory, and other such property must also be examined physically to learn what of the things affecting value exist. (Note that such intangible property as listed securities can as a rule be described in words, fully and simply.) Adequate physical examination can be made, of course, but it requires time and highly developed skill.

C. *What legal or economic factors reduce or enhance the worth of the property?*

Knowing complete physical features is still not enough for valuing properties, especially real estate. Two properties as physically identical as possible may differ in value because one is subject to easements or has special rights the other does not; mortgages, rent controls, zoning, adverse occupancy, defects in title, and other such factors influence value, sometimes greatly. Not infrequently, their very existence is hard to discover, and more often their significance is difficult to measure. [9]) The skills needed to handle valuation problems of this type well are distinctly different from those needed to determine physical characteristics, and much rarer.

D. *What income does the property yield?*

A central factor in valuation, of course, is the actual, and expected, income from the property. Adequate income data will sometimes be readily available (for property other than securities). More often, however, much careful study is needed. For example, in the case of real estate, finding all elements of gross income,

9) By their very nature essements as such can seldon have a market, but they can at times materially affect the value of a property, up or down. The effects of rent controls today will depend upon estimates of their future life and significance.

including nonmoney benefits to the owner, may be easy, but for many types of properties, including farms, it is often hard. [10]) Still harder, as a rule, is to learn what expenses, made or accrued, are properly chargeable against the year's operations. Study of the accounting records applicable to the property is needed. Moreover, the scrutiny of accounts must be by a person with a knowledge of accountancy and in addition with a knowledge of the practices that may be expected from the type of business and owner involved.

Some of the most perplexing valuation problems arise when properties and the businesses conducted in them are so closely intertwined that separation of the net results into that attributable to the property and that attributable to the management becomes necessary. Yet management certainly makes a big difference, and one is wrong to attach to the property any values which the management as such creates. When one firm owns several properties and pools the results, the amount yielded by any one property may be indeterminable. The mere mention of depreciation and obsolescence will bring to mind familiar problems of computing annual net income.

E. *What are market prices of property?*

Tax values will ordinarily be related to market prices, actual or modified in some way. Yet in any period of a year or two, or even more, only a small fraction of real estate, and to lesser extent most other properties (except some securities, inventory, and small items of machinery, etc.) will be sold. The market bears little resemblance to highly organized and active markets which economists think of when they use the term. Yet there may be enough transactions to provide a good sample. When supplemented by data on bids and offers, the sales figures must suffice. [11])

For real estate, especially, getting data on selling prices is far from easy, at least in the United States. There is no assurance that the figures reported for public records are accurate. Even when they are, the public records do not necessarily show precisely what was sold. The crops on the land, the fixtures in the store, the air conditioning equipment in the office building, the outstanding leases of the apartment building, and untold other things that effect value need not be reported to comply fully with the law. Hence significant facts of sales will sometimes be known only to the persons involved. Others can learn a great deal by diligent and in-

10) Has the user paid some of the taxes?

11) Is there not a substitute in the form of original cost minus depreciation? Hardly! The estimates of depreciation cannot be accurate for determining value unless they are what the market sets.

telligent effort, but both skill and energy are needed. If valuation is based on capitalization of earnings, there is a tremendous task of learning the rates at which buyers and sellers are capitalizing different kinds of income streams from tenements, office buildings, patents, etc. Moreover, one always faces the possibility that some sales were not representative of general conditions because one party or the other got an exceptionally good bargain.

F. *How should interests in trusts and subject to other fiduciary limits be valued?* [12])

In the United States, only partly for tax reasons, increasing amounts of property are being put in trust and hedged by various legal restrictions. Investment in life insurance and annuities is growing and commonly with settlement options that "mix" the ownership. Even when there is no question about the value of the trust or life insurance as a whole, there may be grave doubt about *who* owns *how much*.

For death and gift tax purposes, however, it is important to know the value of specific parts of a whole. Actuarial skill can provide some answers — good answers if the right actuarial data and procedures are used. Yet for some situations actuarial data are neither available nor appropriate — the future costs of medical care for a widow or the prospects of her remarriage or the trustee's judgment about the maturity of a beneficiary.

The interest rate appropriate in valuing trust interests, annuities, etc., may also be far from clear; an error of half a percentage point can be far from trivial. No fixed rate can be correct for all cases; careful discrimination, however, is itself a huge job. Somewhat similar are problems of valuing contingencies, such as the right to cancel a twenty-year lease in ten years. How figure the value of such an option today? What if both parties have a right to reopen a contract?

G. *Interests in closely-owned businesses*

In the United States, and perhaps elsewhere, the shares of businesses owned by a few persons can present extremely difficult valuation problems. Much has been written on the subject, and although in one sense the problems may seem hopelessly difficult, there are general guides which can help yield better, rather than poorer, answers. Skill and effort are essential.

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12) This aspect of valuation has been seriously neglected in the literature of public finance with which I am acquainted. One consequence of inadequate valuation of such wealth is that some propertyowners will take deliberate advantage of any biases in valuation te escape tax.

Owners of a closely-owned business can sometimes count upon liquidating to get at least the value of the underlying assets, a total of values which may at least set a minimum of worth. Comparison with the values of shares of firms whose securities are actively traded is helpful. Yet for many years the shares of some leading corporations have sold for much more, than book value. Moreover, rates at which earnings of major corporations have been capitalized in the market on any given day have varied widely. Then, too, size itself makes a difference in value. Thus the record of listed securities may provide no clear guide for valuing closely held firms. Moreover, closeness of control is an important value factor in itself—worth a good deal to those who have it, perhaps, and of negative value to those on the outside without it. (Among the values attaching to closeness of control in the modern world are some resulting from opportunities at tax avoidance or evasion.) The firmness of patent position, the role of particular persons, the vulnerability to competition, and a host of factors may affect the worth of businesses in ways very hard to measure. Good results require intensive study of the business, the control group, the industry, and often the region. Not a small assignment!

These seven examples of problems of valuation have been noted to indicate something of the challenges that must be faced. Others, and there are many, may at times be more important. This brief discussion, however, should suggest that tax valuation can make widely varied, as well as extremely complex, demands on the valuer.

III. *Methods of Improving the Quality of Valuation.*

In some respects, at least, the problems are growing more complex, as well as more important money-wise. Yet, while men have made their problems more difficult, they have also improved methods of solving them. Today's needs call for two somewhat related actions. (1) Vigorous, rational effort should be made to use more fully the best techniques so far developed, and (2) continuing efforts should be devoted to developing still better techniques. Whatever the second holds is unknown, but the first certainly offers basis for hope and constructive action.

Familiarity with American conditions convinces me that in my country far more could be done than has yet been tried to extend the use of the best methods already devised. I suspect that in other countries comparable opportunities remain. [13])

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[13]) Appraising in the United States has become far more systematic and rational in the last twenty years. The improvement has occurred in some government staffs as well as privately, but only a small fraction of

A. *Obstacles.*

Of course, there are obstacles. (1) Not unimportant is *public reluctance to have better methods used.* Some of the reluctance is irrational and might be removed by an educational program, in itself not easy. Deeper, however, is a widespread belief that taxpayers can use bad methods to their own advantage. Many can and do, and more probably hope to; yet others suffer. [14]) Those who suffer probably do not realize the fact, and if they do come to understand it may feel that their time is better spent fighting for more favorable valuations in their own case than for general reform. Fortunately, a small amount of determined leadership championing a meritorious cause, can sometimes accomplish a great deal. One test of fiscal statesmanship may be evidence of leadership in improvement of this form of tax administration.

(2) *Bureaucracies have been alleged to be reluctant to change their ways.* Although the charges may often be exaggerated, there is some underlying basis.

The routine of established ways is useful. Things do get done, even if not always well. Upsetting the going procedure not only involves doubts about the success to be realized but will certainly bring many inconveniences to the civil servants who must make the change. Sticking to the old methods is more comfortable than working out new ones. Moreover, if new ways require new skills, difficult staffing and personnel problems may result, especially where seniority is well established and where job security is firmly entrenched. Thus there may be validity to the inclination of bureaucrats to oppose change. Yet progress requires change, and the public may have to expend a little energy to overcome the opposition of some civil servants.

(3) Some types of reform would require *legislative action,* a matter whose difficulty will vary from one place to another.(4) Moreover, existing *judicial decisions* on valuation will sometimes present almost insurmountable obstacles to quick improvement — in the United States certainly. New actions by legislatures, clear and forceful regulations and administration by the civil service, and careful, persuasive argument before the judges can eventually bring change, especially if the basic objective rests on sound logic.

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government or private appraisals are made with top quality methods.

14) The groups who benefit from poor valuation have an incentive to foster and finance opposition to improvement. Where different governmental units use the same tax valuations, some will probably have stronger reasons than others to obstruct improvement. In the United States underassessment for property tax purposes became virtually competitive within some states.

(5) *Lack of resources* will always obstruct improvement in this poverty-haunted world. The more important skills for valuation are scarce in relation to the total demand. Governments must bid against the private economy for available service, and with the general standards of salaries they pay will simply not be able to attract enough skill to meet their own needs for complete, first-class accomplishment. Training, too, is expensive in money and time. The typical government is likely to find that taxpayers will not support the increase in staff numbers apparently required. Moreover, the equipment needed to put some improvements into effect may seem too costly. Although careful studies might show the clear profitability of additional outlays for equipment as well as for personnel, the persons controlling the purse strings may refuse to acquiesce. At best shortage of resources must be expected as a retarding factor; more likely it will be a serious obstacle. Obviously, therefore, plans must seek deliberately to make the most of what becomes available.

B. *Clarification of standard of value.*

In some cases the value standard may have been formulated about as clearly as humans can do. However, in other cases, perhaps the majority, avoidable ambiguities and inconsistencies remain, perhaps not recognized as such. In such cases the *will* to recognize defects in the existing order is an essential first step. The next step, getting agreement on what is better, is likely to be much harder.

My own feeling is that the standard should be precise, and precise in a way that minimizes the area of discretion left to the valuers. For example, "market value as of a certain day" is more definite than "normal market value." The former (which is widely used in valuing listed securities) limits the person making the valuation much more than the later, and provides a clearer standard. Yet for other reasons we may prefer some "normal." After all, the accidents of day-to-day fluctuations may be great enough to produce unwelcome variations in taxes (at high rates). Rather than seeking relief in a vague value standard, such as "normal," explicit averaging seems better. The tax value of one period might be the average of values of three or more years. The practical problems of using average values need thorough examination. To the extent that they can be overcome, the possibilities of getting a clearer valuation standard and better valuation are enhanced. [15])

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15) The Haig-Shoup study of New York City finances proposed the use of a four-year moving average as the basis of property tax valuations. One purpose of the recommendation was to remove some of the room for discretion by assessors in fixing tax values. This discretion was the source of some of the apparent irregularities in valuations. The experts noted that

Even when the top policymakers have agreed upon a standard, it will not become effective unless the men on the job understand it and accept it. Here education and supervision offer the chief hope.

C. *Personnel.*

Major problems center around personnel.

Today every staff is probably too small in sheer number of people, too small, that is, to do a first-rate valuation job. Every staff is more certainly short of some or many of the skills needed, either regularly or occasionally. And every staff likely uses its most skilled manpower with less than optimum effetiveness. Some possibilities of improvement will be apparent to every supervisor and man on the job. Opportunity and incentive can bring improvement internally. Yet the inside view is not enough, if only because some insiders will not be really able to develop and express their views except to outsiders.

How, then, get outside help? There are probably several ways. Special studies made by management engineers or others chosen for their specific competence have proved helpful in the United States. A second method is for wide exchange of ideas among staffs of different jurisdictions. What recruitment and training practices are followed? What seem to be the results of each? Why? Similarly, supervision, promotion, morale, salary, working conditions, and other relevant elements of personnel policies can be examined, not only in other government offices, in the same country and abroad, but also in businesses and wherever people work. A big order of course! Yet so much work has already been done that a wealth of information is available for use. [16])

Two partial approaches to the problem of skill probably need wider application (1) development of skill within any organization by *specialization* and *intensive training* and (2) *concentration of the efforts* of persons with each skill on work requiring it as much as possible. Both are aspects of good management, generally obvious but too generally neglected. Division of labor designed to spur specialization will serve here as elsewhere in making scarce resources produce more effectively by developing skills. The existence of skills is not enough, however; when a skilled person works on routine matters, some of that skill is being wasted. Thus one way to get more skilled effort in not a few organizations is to provide

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an average would virtually eliminate the apparent justification for allowing assessors some discretion to make implicit adjustments for price fluctuations.

[16]) In the United States, personnel management is developing rapidly and, I believe, with much success. Governments have been participating.

more of the less skilled personnel and equipment. Clerks to do the clerical work so valuers can have more hours to work on valuation!

(3) A third approach lies in *supervision*. The quality of supervision vitally influences the effectiveness with which any given staff works. While we sometimes think that supervision is wasteful overhead, we know that it can also be keystone for success. It can be especially important in transmitting to a large group the special qualities of skill which only one or a few members can have. [17])

(4) Governments might wisely make greater use of another method of getting skill, *use of outside experts*. Until valuation cases get to court, American governments rarely seek the judgments of nonofficial appraisers. There are good reasons. Experts may charge high fees. Not all persons who claim to be experts are in fact more competent, or better situated, than their government counterparts. Selection of outsiders is not easy and may rest on little more than political favoritism. Control of outsiders may be hard to exercise. Perhaps most important, the work of experts is likely to range them against the government of many occasions. Reliance on the outsider in one case will show that you believe him to be qualified; when he is your opponent in the next case, you must expect difficulty in offsetting his influence.

Finally, public confidence in the ethical standards of appraisers has in America not yet reached the point where full confidence can always be placed in their objectivity. Despite the difficulties, however, governments would probably do well to try to find ways of using the skills of outside specialists in valuation. For some types of problems, certainly, there can be no other way to get high expertness, for the Government will have too few cases to develop its own experts. Even when it may not seem wise to rely finally upon an outsider's value figure, his assembly of facts and their interpretation can be useful.

Outside experts may also be used in another important way — *training* the government staff. In formal training programs, or informally, nongovernment specialists may contribute to the improvement of the competence of the civil service. The outsiders that can help will be not only appraisers but also architects, economists, accountants, engineers, attorneys, businessmen, and probably others whose specialized work involves valuation. A possible difficulty is

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17) The supervisor himself need not have the skills. His greatest, in fact, may be in dealing with people. Thus he may know little about valuing interests in personal trusts, but he may be highly effective in getting the members of his staff with such problems to work together effectively and to see that the specialist in farm valuation does not try to value trust interests when they appear in an inheritance.

that such outsiders may feel an interest in low tax valuations and thus try to "slant" their teaching. At least a partial corrective can be to distinguish between the kind and nature of facts affecting values and the amount of the effects. More fundamentally, however, is the professional integrity and sense of public responsibility of the persons chosen.

Another way to improve skills is to *stimulate exchange of ideas among officials*. Meetings, congresses, and personal visits bring people together, stimulating enquiry and interchange of views. Even the official who believes strongly that his way of doing things is about as good as possible under the circumstances may see new possibilities. He may be asked questions that force him to think more critically or recognize, perhaps subtly and unconsciously, that different procedures of others may have some merit. Conferences may seem to be costly in terms of time and money, to bring a good deal of waste motion. Yet the communication they permit, and in fact require, offers one way to develop and transmit ideas that make for more highly trained officials.

D. *Better information.*

Good valuation requires data, an answer to the question "What are the facts?" The discussion has already suggested some of the kinds of information needed for valuation. Valuers may occasionally give the impression that they somehow go into a trance to get answers, that intuition is their mainstay. Nonetheless, they must ultimately base their answers on facts of some sort. The more complete and relevant the facts, the better anyone can do the job. (One of the beauties of valuing listed securities is the ease of getting relatively complete facts). Extensive facts help not only in making valuations but also in defending then when they are challenged. The valuer who can point to little else than his own judgment in defending his figure to a supervisor, owner, or court, is in much less firm position than if he could point to a few, or many, pertinent and supporting facts.

For some valuation problems the official agency will need extensive facts, kept up to date. Real estate valuation, for example, requires thorough land survey's. The original job may be very costly; adequate maintenance will also require some expensive effort, but much maintenance can be done by relatively routine operations. Some of the routine will properly consist of checking with other government records. Although "the government" may have information about property in one set of records, that information will not be useful for tax valuations unless it is in fact available to the valuer. In America, for example, building permit records will often show

any substantial change in the construction of a building, but the small clerical effort needed to get this information on to the records of the tax appraisers is too often lacking.

Facts on market prices are central to any valuation system. Yet dealings in some important markets are not open and recorded. Sometimes the buyers and sellers may want deliberately to conceal facts, to hide them from business competitors, inquisitive neighbors, or tax officials. In other cases there may be no reason to disclose facts even when there is no strong reason to withhold them. Laws on what must be disclosed undoubtedly vary widely. So must practice. I suspect that in many cases the actual amounts paid for rental property where rent controls exist would be extremely difficult to determine. It is a help if the mere fact of sale (or lease) must be recorded openly, such as a public record of transfer of title. If the selling price (or rental rate) must be disclosed, the tax valuer gets a bigger help. In America, the public records of real estate sales are more helpful than before 1932 because a federal tax on the papers of transfer is based on the selling consideration, and stamps thus indicate the price. Assuming that the stamps are correct — an assumption not always accurate — the official who wants to use the figures for tax valuations can get a good idea of the price [19]). He may check it by asking confirmation by buyer and seller. Yet he may face a big task in learning whether the thing transferred is precisely what is to be taxed or whether, as is very common, it includes more or less.

To find this latter, may call for some intensive inquiry. It is here that outsiders who help arrange the transactions have an advantage over the more remote public official. The experienced official, however, with time to investigate can often find out significantly more about transactions than is reported publicly. One or both parties or their agents may be willing to give information, but to get it the government official must spend some time [20]). To evaluate it, he must spend more time.

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[18]) In my study of New York City property tax valuation procedures I was much impressed by the fundamental importance of land surveys and by the ease with which maintenance of essential survey records can be neglected without serious repercussions for perhaps ten or fifteen years. Eventually, however, such neglect will prove extremely serious.

[19]) In New York and other large cities private firms collect and publish recorded data on real estate transfers, leases, mortgages, subdivisions, etc. Tax officials by subscribing to these services can get the facts without the laborious job of examining the public records. When real estate markets are as active as they have been since 1945, however, the organization and filing of the data obtained so easily constitute a clerical job easily underestimated.

[20]) Some American property tax assessors have had considerable

In any one year only a small fraction of real estate parcels are sold. The whole set of real estate valuations, then, must rest on a small base of actual market transactions. Obviously, therefore, the importance of determining the base as exactly as possible is great. Data on closely owned businesses require even more detailed scrutiny to learn what the sale of each may reveal about values more broadly. For each kind of property that may present valuation problems — interests in trusts, jewelry, inventory, machinery, objects of art, furniture — there will be need for facts, some certainly of a kind that can be obtained. (The concern here, we may repeat, is not with discovering the existence of property, another difficult job). Each type of property presents its own problems of factgathering, but all will yield at least somewhat to persistent, intelligent effort. For example, scrutiny of newspapers and trade publications can reveal useful information. At what prices are things being offered? Are there sales at those prices? How much insurance is carried? What values are being estimated by banks and insurance companies for lending purposes?

Getting data is not enough, of course. They must be assembled and recorded, analyzed and interpreted. Business methods, as well as the methods of leading government agencies, can chart the way to improvement in this part of the problem. Simple matters of housekeeping, such as light and space, as well as the condition of filling equipment play a part. The vast progress in adapting and using mechanical equipment offers opportunity for improvement in the efficiency of government tax offices, as some of them have proved for parts of their operations. The public can still aid its officials materially by providing more and better equipment. The orderly recording of facts is a means to the end of analysis and use, for which time and skill are essential.

Responsibility for getting and keeping facts cannot rest entirely on government. Some facts can come only from the taxpayer, and others, as a practical matter, must come from him. In America, taxpayer complaints about the amount of recordkeeping and reporting now required are vociferous and often well justified. Yet some taxpayers keep very poor records, and for some taxes public officials have inadequate access to whatever records the owner may have. A hard fact of life in the modern world is that many persons not equipped or inclined to keep financial records are required to pay taxes at fairly high rates. Perhaps a bit more original recordkeeping might be required. This is a subject on which we need further study,

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success in getting buyers or sellers to provide voluntarily additional information about transfers. Often an inquiry by mail will suffice to clear doubtful points.

giving special attention to different kinds of taxes and different conditions.

At least two partial solutions can be suggested. (1) One is to give tax officials *access to the records* that are kept. In the United States, property tax assessors do not generally have legal right to examine the books of a property owner before making the original assessment. Bank, trustee, and insurance company records are given a large degree of immunity from tax scrutiny, especially for the property tax. For the income and estate taxes there is legal power to demand to look at the records, but there is generally lack of time to do so, a part of the personnel problem. To make full use of facts now collected, therefore, officials need more time per case and legal right to study the financial records pertaining to the property.

(2) The second is to make *intensive studies* of apparently typical cases. Although many taxpayers will not have records or may refuse to make them available, a few owners will have extensive data and be willing to cooperate (or under legal compulsion to do so). A completely thorough examination of such cases, including on-the-spot physical surveys (of inventory, crops, condition of repair, etc.), can provide guides for intelligent dealing with other cases. The details and even the relationship of cost and income items will be expected to vary, but thorough knowledge about a few cases will help greatly in judging others and sometimes to the advantage of propertyowners.

The number and intensity of detailed reviews must obviously depend upon the uniformity found in the cases studied, the availability of staff and records, the amount of outside assistance, and the need. In a large city, for example, studies of apartment buildings would properly get more time than studies of theaters because of the relative importance. And if private experts are available to help value theaters, the limited resources for intensive case studies should hardly be devoted to theaters.

E. *Procedure for appealing disputed valuations.*

The inherent uncertainties about value, plus the opportunities for error and the incentives toward bias, assure that many disputes about value will arise if tax valuations are anywhere near market prices and if tax rates high. An essential of good tax valuation is a good system of review and appeal. But what are the requirements of a "good" system?[21] One is that the system be

[21] As used here, the term "review" does not include the examination of cases as a part of supervision but only those cases the taxpayer has challenged. I think it is correct to say that in the United States the

accessible in the sense that both the taxpayer and the government can take cases to appeal promptly, conveniently, and inexpensively and get impartial consideration. There is hardly any need to indicate why each is important. There is, however, considerable opportunity for governments to offer better facilities on each score. They can hold review hearings nearer the time the facts apply, get hearings at times and places and in other ways meeting the needs of taxpayers, and try always to keep costs low.

The latter objective may run into another requirement of a "good" system competence. Good review of valuations, even more than making them orginally, requires *skill*. The mere fact that a dispute has developed suggests that something more than ordinary issues are involved, so that more than ordinary ability is desirable for solving them. Moreover — and in the United States, at least, this reason is especially important — desicions in cases that go to review tend to set precedents that guide the masses of routine, noncontested cases. *Effort focused on settling disputed cases well, therefore, indirectly helps raise the quality of results in many more cases.*

The reviewing authorities, of course, should be *impartial*. For this reason, they should be removed from the agency originally making the assessment, although the first stage of review will appropriately be in the same department at least if the review is made under conditions which free the reviewer from any pressure to support the original official and if taxpayers are made to feel confident of this impariality. While progress has been made toward this goal is some parts of the American tax administration, we have not yet achieved it fully. The reviewer should also be immune to political or other taxpayer pressures, other than the weight of fact, to influence valuations, a requirement not easily met in some parts of my country and perhaps in others.

Generally, officials in the administrative organization who have review functions are more highly trained than those who make the orignal valuations. One exception will arise when specialized property — utility equipment or hotels or art masterpieces — is involved. As a rule, however, positions with review responsibilities are senior and tend to get experience personnel.

These officials may be overworked; like all of us they will need training to keep abreast of developments. But they are generally men who have worked up the ladder and thus can claim above average training. In America, a great break comes when cases go to court. Then the decision is made by a person trained in the law, not in

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absence of disputes over property and death tax valuations in a locality indicates substantial undervaluation.

valuation. Some judges, of course, may have gotten enough specialized training to qualify as highly competent appraisers. Such men are rare, however. The utmost goodwill plus extensive training in the law plus the highest integrity in a judge are not enough for the job of valuation. Special skill is also essential. Of course, the judge can get help from the testimony of experts hired by the disputants. Where the experts are pleading a case, however, where they are engaged to help litigants as such, their answers are likely to be influenced by the interests of their employers. The judge does not then get the very best — fully objective — professional judgment.

In my view, the best approach toward solution would be to establish courts or boards composed of men or women chosen on the basis of competence in valuation (plus the other qualities of a good judge). While legal training would be helpful, the presumption would be that the persons were not lawyers. A host of difficulties would arise. I have discussed them elsewhere and believe that in America they are not great enough to make the proposal hopeless. Whatever the specific form of any change, the substance should be to *place more of the decisionmaking on persons especially trained in valuation who are not representing the disputants.*

LES METHODES D'ESTIMATION DE LA PROPRIETE AUX FINS DE TAXATION

PAR C. LOWELL HARRIS

RESUMF

Les méthodes fiscales d'estimation valent par la compétence de ceux qui les appliquent, par les conditions de leur travail ainsi que par les outils et les concours dont ils disposent. Le taux croissant des impôts a augmenté l'importance pratique de bonnes estimations de manière à respecter l'équité vis-à-vis du contribuable et à éviter l'introduction d'éléments perturbateurs dans le développement économique. L'estimation est un domaine de l'administration fiscale actuelle qui influencera le développement de l'intégration économique européenne. Une bonne estimation est de loin plus difficile qu'on ne le croît généralement et demande constamment des revisions lorsque ses valeurs de base changent. Elle requiert une expression claire de la valeur considérée et une connaissance complète non seulement des caractéristiques physiques de l'objet qu'on estime, mais aussi des facteurs juridiques et économiques qui affectent la valeur de la propriété et le montant du revenu. La propriété qui n'est représentée que dans une faible mesure par des avoirs monétaires et notamment les participations dans des entreprises privées dont le capital est détenu par un nombre limité de personnes, ne peut être estimée correctement que moyennant des efforts spéciaux et souvent und grand entraînement.

Des améliorations dans l'estimation fiscale peuvent être obtenues par un usage plus complet des meilleures techniques déjà mises au point et par l'intensification des recherches pour établir des méthodes meilleures. Des obstacles sérieux au progrès se trouvent dans le manque de soutien chez l'opinion publique et d'intérêt chez le législateur, dans l'indolence de l'administration, dans les décisions judiciaires et dans l'impuissance du personnel et des fonds dont on dispose. Néanmoins, on propose d'agir dans quelques directions: une plus grande précision dans la définition de l'unité de valeur et peut-être l'emploi délibéré de moyennnes; des employés plus nombreux dotés d'un meilleur équipement, des efforts accrus pour choisir plus soigneusement le personnel, un entraînement pour développer de plus grandes aptitudes, une surveillance plus minutieuse et plus suivie; la concentration en personnel formé sur des travaux où leurs capacités peuvent être utilisées plus complètement; le recours à des experts choisis à l'extérieur et un échange plus complet des idées sur le plan tant national qu'international.

La qualité des estimations peut aussi être améliorée en assurant une formation plus étendue souvent à partir de documents qui existent déjà comme ceux relatifs aux ventes, parfois à partir d'autres sources; les autorités peuvent faire du meilleur travail si elles ont légalement accès aux documents des contribuables. L'étude poussée de cas raisonnablement typiques peut être très utile pour diriger le travail à propos d'autres cas du même genre.

Enfin, les procédures d'appel sur estimations contestées doivent être plus développées en mettant l'accent sur la rapidité, l'impartialité, l'économie et la compétence technique. Les buts à atteindre devraient, en quelque sorte, joindre l'impartialité d'une procédure judiciaire simplifiée et l'efficacité d'instances formées à la technique de l'estimation plutôt qu'au droit.

LA POLITIQUE BUDGETAIRE ET FINANCIERE BELGE DE L'APRES-GUERRE

PAR M. H. D'HAEZE,

Conseiller financier auprès du Ministère des Finances, Bruxelles

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I. GENERALITES

Le souvenir du développement monétaire inflatoire de l'après-guerre 1914-1918 est encore très frais dans la mémoire des belges. Quoi d'étonnant alors que la politique financière suivie depuis la libération du territoire en 1944, se soit développée sous le signe de la peur de l'inflation.

La circulation fiduciaire avait plus que triplé de 1940 à 1944. Le montant des billets de la Banque Nationale en circulation était passé de quelques 30 milliards à 100 milliards de francs et le danger de cette masse monétaire circulant dans une économie anémiée, se trouvait encore accentué par l'existence d'une dette flottante importante.

Déjà avant la libération, aussi bien dans le pays occupé qu'en Angleterre, des techniciens belges s'étaient attelés à la préparation d'un plan d'assainissement monétaire. C'est ce qui explique qu'à peine un mois après la libération, l'opération monétaire la plus compliquée et la plus vaste que connut le pays depuis son existence, fut édictée et fixée jusque dans tous ses détails.

Blocage de plus de 50 % du pouvoir d'achat, dévaluation de 32,7 % par rapport au dollar, contrôle des changes, recensement général des patrimoines, consolidation forcée de la dette flottante, tels furent les points essentiels de cette opération de grande envergure.

Une partie du pouvoir d'achat mis hors circulation, fut définitivement bloqué et transformé en emprunt forcé. L'emprunt atteignait le montant élevé de 64 milliards. L'intérêt bonifié aux détenteurs de cet emprunt gigantesque avait été fixé par la volonté du Parlement, un peu contre l'avis du Ministre des Finances de l'époque, à 3,5 %, soit le taux d'intérêt en vigueur pour le moyen terme à la fin de la

guerre. Cette charge d'intérêt représentait une dépense budgétaire qui pesait lourdement sur les finances publiques.

Un an après, notamment en octobre 1945, trois impôts, appelés couramment impôts d'assainissement, furent votés. Ils firent partie intégrante du plan d'octobre 1944. Il s'agissait d'un impôt sur les bénéfices réalisés dans le commerce avec l'ennemi, un impôt sur les bénéfices extraordinaires réalisés pendant la guerre et un prélèvement de 5 % sur le capital. C'était en prévision de la perception de ces impôts que le recensement complet des patrimoines avait été organisé une année avant. Le produit des trois impôts spéciaux reçut comme affectation légale l'amortissement de l'emprunt forcé de 64 milliards. Ceux qui étaient redevables d'impôts spéciaux purent s'acquitter en remettant des titres de l'emprunt, tandis que le produit des paiements en numéraire servit à des rachats d'obligations en faveur des personnes économiquement faibles, de celles d'un certain âge, etc.....

Au moment du vote des impôts, on avait estimé leur produit total à 50 milliards. Ces prévisions initiales ont presque été atteintes. En octobre 1953 il avait été encaissé 45,6 milliards. Et la perception n'est pas encore tout à fait terminée. Le produit du prélèvement sur le capital, 31,5 milliards, a largement dépassé les estimations et a partiellement compensé les moins-values par rapport aux estimations des deux autres impôts spéciaux (rendement 14,1 milliards).

En 1952 le sort des quelques 20 milliards de titres de l'emprunt forcé non amortis à cette époque a été réglé définitivement. Il a été décidé que ces 20 milliards seraient rendus négociables en bourse en l'espace de 10 ans, chaque année à raison de 1/10 et qu'ils seraient amortis en 20 ans. Ces opérations de libération et d'amortissement sont en plein développement; elles constituent la dernière phase de l'assainissement monétaire.

II. LA POLITIQUE BUDGETAIRE

a) *Aperçu d'ensemble*

Au lieu de limiter les effets de l'inflation par des contrôles de tout genre, le gouvernement belge avait donc opté pour l'intervention courte et efficace, attaquant le mal à la racine en supprimant le pouvoir d'achat excédentaire.

Ces mesures exceptionnelles très dures sont parvenues à créer un climat favorable qui put être mis à profit au maximum par une politique d'importation massive, rendue possible par les devises fortes récoltées par le remboursement du préfinancement des soldes des troupes alliées stationnées en Belgique, ainsi que par le remboursement par l'Amérique et le Canada des importants décaissements

exposés dans le cadre de l'accoord „Prêt-Bail". Ainsi, la reconversion eut lieu dans un minimum de temps et à un rythme plus accéléré que dans les autres pays européens. L'appareil productif belge, relativement peu endommagé par la guerre, put travailler à plein rendement dans une période où la demande était encore quasi illimitée. C'est à la faveur de ces facteurs favorables qu'un rééquipement intensif à pu se réaliser et que la Belgique, de pays à salaires relativement bas, est devenue un pays de hauts salaires.

La reconversion spectaculaire, par l'augmentation prononcée du produit national et par conséquent de l'assiette des prélèvements fiscaux, eut un effect favorable sur les recettes du secteur public. Cet effet fut encore multiplié à la suite de l'accroissement automatique de la charge fiscale résultant de l'augmentation des prix et salaires nominaux en l'absence d'une adaptation adéquate des barèmes d'impôts. C'est grâce à ce développement que, malgré des nouvelles dépenses de nature diverse, la Belgique est parvenue à rétablir son équilibre budgétaire à peine trois années après la libération.

Lorsqu'on parle d'équilibre budgétaire il faut bien s'entendre. La politique budgétaire belge a toujours été axée sur le principe que voici: équilibre entre recettes ordinaires et dépenses ordinaires et recours à l'emprunt pour les dépenses extraordinaires.

Tous les décaissements n'augmentant pas le patrimoine popre de l'Etat, sont considérés comme dépenses ordinaires. Aucune dotation pour amortissement des biens de l'Etat n'est prévue. Toutefois, contrairement à ce que l'on constate souvent dans d'autres pays, la charge de l'amortissement de la dette publique figure au budget ordinaire. Les dépenses augmentant le patrimoine de l'Etat, soit qu'il s'agisse d'investissements, soit qu'il s'agisse de participations ou d'avances, sont toujours inscrites au budget extraordinaire.

Pendant la guerre, les charges imposées par l'occupant à la Belgique ont été financées en dehors du budget par des avances de trésorerie. Et même au lendemain de la libération, le gouvernement s'est vu dans l'obligation d'avoir largement recours au procédé des avances. C'était inévitable. La préparation et le vote des budgets subissaient des retards considérables, alors que la nécessité de l'heure n'en admettait aucun. Problèmes des importations, application des accords mutuels et réciproques conclus avec les alliés, participation de la Belgique à l'effort de guerre allié, tout devait être réglé avec promptitude sans souçi de la procédure belge. C'est ainsi que se sont développées, en marge du budget, des dépenses d'une importance très étendue.

Pour en revenir à une situation budgétaire normale il était indispensable d'intégrer l'ensemble des dépenses financées par avances de trésorerie dans les budgets, ou du moins, dans les comptes bud-

gétaires. Cette reconversion budgétaire fut votée par le Parlement en 1948. Uniquement pour les dépenses d'après-guerre, elle portait sur 24 milliards. Ceux-ci sont ajoutées, pour une très grande partie aux dépenses de l'exercice 1946, bien qu'ayant trait également aux exercices 1944 et 1945. Le fait qu'il était difficile d'opérer une répartition judicieuse des 24 milliards sur les trois exercices 1944 à 1946, rend très difficile les comparaisons des données budgétaires pour ces exercices.

En 1947, la procédure budgétaire normale fut rétablie. Le souvenir de l'effort qu'exigea le rétablissement, fit décider le gouvernement de l'époque de soumettre à une réglementation très stricte les dépenses hors budget. Depuis lors, le ministre des finances ne permet plus l'avance du Trésor que pour des décaissements ayant indiscutablement unt caractère urgent, lorsqu'il est manifeste que les dispositions budgétaires normales sont inapplicables en l'occurrence.

Ci-après un tableau fournissant les données du budget ordinaire pour les années 1947 jusque 1954.

DEPENSES ET RECETTES ORDINAIRES DEPUIS 1947

	Dépenses ordinaires		Recettes ordinaires	Solde
	Crédits	Réalisations		
	(en millions de fr.)			
1947	60.647	51.392	46.909	— 4.483
1948	63.168	62.454	62.832	+ 378
1949	68.734	71.064	67.049	— 4.015
1950	65.552	63.026	63.420	+ 394
1951	68.497	66.834	76.768	+ 9.934
1952	77.382	75.835	77.639	+ 1.804
1953	79.619		80.461 (estimations)	+ 842
1954	79.142		79.208 (estimations)	+ 66

Ce tableau est particulièrement instructif. Il nous apprend que l'évolution des dépenses publiques de l'après-guerre est caractérisée par deux phases bien distinctes: la liquidation des conséquences de la guerre avait porté le budget ordinaire au niveau de 65 à 70 milliards de francs en 1949-1950; la défense nationale intensifiée l'a augmenté jusque 80 milliards. Il nous indique également que l'exercice 1951 s'est clôturé avec un boni comme on en a rarement connu dans l'histoire budgétaire belge: 9,9 milliards. Ce boni était le résultat de plus-values de recettes d'environ 13 milliards d'un côte et de dépenses supplémentaires de 3 milliards de l'autre côté. Les plus-values de 13 milliards trouvèrent pour une grande partie leur origine dans l'effet du „boom" occasionné par la guerre de Corée. Autre constatation intéressante: les recettes des exercices ultérieurs n'ont

pas diminué par rapport à l'exercice 1951; ce résultat, obtenu sans aggravation de la charge fiscale (un supplément de 1 milliard de droits sur l'essence excepté) a permis de financer les charges accrues consécutives à une politique de défense nationale beaucoup plus coûteuse qu'antérieurement.

Et voici les chiffres du budget extraordinaire.

CREDITS ET DEPENSES EXTRAORDINAIRES DEPUIS 1947 [1])

Exercices	Evaluation d'après le budget primitif et les lois de crédits supplémentaires	Résultats des transferts effectués en vertu de la loi	Evaluation finales	Faits réalisés
		(en milliards de francs)		
1947	6,8 [2])	— 1,0	5,8 [2])	5,7 [2])
1948	8,1	— 0,3	7,8	7,7
1949	15,7 [3])	— 1,0	14,7 [3])	12,6 [3])
1950	14,8	— 1,2	13,6	13,4
1951	18,7	— 3,3	15,4	14,6
1952	21,6 [4])	+ 1,8	23,4 [4])	21,3 [4])
1953 crédits	19,7 [5])			
1954 crédits	17,6			

Il était nécessaire d'ajouter dans le tableau donnant l'évolution des dépenses extraordinaires, une colonne indiquant les transferts de crédits.

Les pratiques budgétaires belges autorisent, pour cinq ans au maximum, le transfert aux exercices ultérieurs, soit de crédits qui sont accompagnés d'une mention spéciale autorisant leur report, soit de crédits engagés pour lesquels, à la clôture de l'exercice, la liquidation n'a pas encore pu avoir lieu.

Comme le tableau l'indique, l'effet des reports a pendant plusieurs

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1) Le produit des impôts d'assainissement et l'amortissement correspondant de l'emprunt d'assainissement monétaire ont été comptabilisés au budget extraordinaire. Les chiffres du tableau en font abstraction.

2) Non compris le montant de la participation de la Belgique aux organismes de Bretton-Woods. Le crédit et la dépense figurant au budget et dans les comptes de 1947 étaient de 10.846 millions de francs.

3) Non compris un crédit et une dépense de 1.047 millions de francs pour le maintien à leur valeur or des avoirs en francs belges détenus par le F.M.I. et la B.I.R.D. (loi du 26 décembre 1945, Accord de Bretton-Woods).

4) Non compris les crédits et dépenses pour la mise à la disposition du Congo des emprunts en dollars auprès de l'E.C.A. et de la B.I.R.D. (1.789 millions).

5) Non compris un crédit et une dépense de 1.352 millions de fonds de contrepartie de l'E.R.P. 1950-1951.
Non compris un crédit et une dépense de 827 millions pour emprunts du Congo E.C.A. et B.I.R.D.

années été négatif, ce qui prouve que l'ampleur des reports allait en s'accentuant. L'accumulation des engagements devait nécessairement provoquer des dépenses supplémentaires. C'est ce qui s'est produit dès 1952. Ceci explique en partie le fait que le problème de trésorerie en Belgique est bien plus difficile que ne le ferait croire le chiffre du budget extraordinaire. C'est là aussi, dans une certaine mesure, l'origine du blocage au budget extraordinaire de certains crédits non encore engagés, politique suivie déjà depuis fin 1952 par la gouvernement.

b) *La structure du budget*

Le budget a donc atteint à peu près 100 milliards, soit 80 milliards pour les dépenses de consommations et 18 à 20 milliards pour les dépenses extraordinaires. Pour bien se rendre compte de l'évolution budgétaire, il s'indique de comparer ces chiffres à un budget normal d'avant guerre, par exemple celui de 1938. Durant l'année précitée les dépenses ordinaires étaient de l'ordre de 12,2 milliards et les dépenses extraordinaires de 2,5 milliards, soit ensemble 14,7 milliards. L'indice d'augmentation est par conséquent bien plus élevé que celui des prix (420 par rapport à 1938) ou celui des salaires. Ceci s'explique essentiellement par les dépenses de défense nationale et, en ordre subsidiaire, par le coût de la sécurité sociale, les finances des pouvoirs subordonnés et les dépenses résultant de la guerre. Les chiffres ci-après sont suffisamment éloquents à ce sujet.

	Dépenses durant l'exercice 1938	Crédits pour l'exercice 1953
	(en million de francs)	
Défense Nationale	1.651	20.700
Sécurité Sociale	947	10.289
Finances des pouvoirs subordonnés . .	—	5.640
Dépenses pour victimes de la guerre .	1.070	7.250
Dommages de guerre	—	2.500

Après la libération, la Belgique s'est donnée un système de sécurité sociale très large, généralement plus avantageux pour les salariés que la législation sur ce point dans les autres pays. Le financement du coût de la sécurité sociale est tripartite: les salariés, les employés et l'Etat y contribuent. Le tableau ci-après donne un aperçu de la structure de ce financement.

Le budget de la sécurité sociale atteint donc plus qu'un tiers du budget de l'Etat. Son financement exige des contributions atteignant en valeur 30 % des salaires avec au surplus un subside de l'Etat de 10 milliards.

FINANCEMENT DE LA SECURITE SOCIALE
(année 1952)

Secteurs:	Taux de la cotisation:		Montants payés:		Intervention de l'Etat	Coût total
	ouvrière	patronale	par les ouvriers et les employés	par les employeurs		
			(en millions de francs)			
ômage	1,— %*)	1,—%*)	808,7	808,7	4.771	6.388,4
ladie-Invalidité .	3,5 %*)	2,5 %*)	2.783,8	2.050,3	1.515	6.349,1
iilesse et décès maturé	3,75 %*)	3,75%	3.150,4	3.672,7	2.943	9.766,1
ocations familiales	—	7,5 %*)	—	5.988,8	600	6.588,8
cances annuelles .	—	6,5 %	—	4.621,6	—	4.621,6
ers (rééquipement nager et autres) .	—	—	52,1		460	513,1
Total . . .	8,25 %	21,25%*)	6.795,0	17.142,1	10.289	34.226,1

*) Les cotisations ne sont perçues que sur les premiers 5.000 frs. de salaire.

Les dépenses en faveur des pouvoirs subordonnés, d'un montant de 5,6 milliards, demandent également quelques mots d'explication. Une réforme des finances des provinces et des communes a eu lieu en 1948. Avant cette réforme, les communes, aussi bien que les provinces, pour alimenter leur caisse, votaient généralement des centimes additionnels aux impôts sur les revenus. Ces suppléments étaient perçus par l'Etat. Les sommes ainsi encaissées étaient versées par le Trésor aux communes par le canal des comptes pour ordre et le budget n'en portait pas trace. La réforme de 1948 enleva aux pouvoirs subordonnés la possibilité de voter des centimes additionnels aux impôts sur les revenus, à l'exception de l'impôt foncier. En revanche, l'Etat majora ces impôts de la moyenne des impôts directs locaux et attribue, depuis lors, des subsides aux pouvoirs subordonnés. Au moment de la réforme, ces subsides compensaient largement la perte encourue. Dans la sphère budgétaire la réforme eut pour résultat une augmentation des recettes et des dépenses. Dans la sphère fiscale il en résulta une unification de la charge fiscale pour tout le territoire du pays.

Les dépenses pour les personnes victimes de la guerre ne demandent pas d'explication. Avant 1940, le budget était encore chargé d'un milliard pour indemnités aux personnes touchées par la première guerre mondiale. Actuellement les indemnités de ce genre dépassent 7 milliards.

La réparation des dommages de guerre a lieu d'après un système

prévoyant des indemnités et des crédits. Le gouvernement a créé une Caisse autonome pour réaliser le financement des décaissements pour dommages de guerre. Il verse annuellement à cette caisse 2,5 milliards. A différentes reprises déjà, celle-ci a emprunté pour augmenter ses moyens. Vu le rythme des dépenses de la caisse, dépassant de loin la dotation de 2,5 milliards, une loi récente vient d'autoriser de payer certaines catégories de sinistrés en titres de la dette publique. Ainsi la pression sur le Trésor a pu être diminuée.

* * *

Pour porter les recettes jusqu'au niveau de 80 milliards (72 milliards de recette fiscales et 8 milliards de recettes non fiscales) des mesures exceptionnelles témoignant d'un courage fiscal exceptionnel ne se sont pas imposées, bien qu'il faut souligner que ce courage fiscal s'est manifesté en 1945 lorsque dans le cadre du plan d'assainissement monétaire un prélèvement sur le capital de 5 % a été décidé.

La plupart des aggravations de la charge fiscale, décrétées pendant la guerre, ont été maintenues en vigueur après la libération. Les changements de législation intervenus depuis lors n'ont pas eu pour effet d'accentuer cette charge. Bien au contraire, à différentes reprises des adaptations, dans le sens d'un dégrèvement, eurent lieu dans le domaine des impôts sur les revenus. Toutefois, ces adaptation n'ont pas compensé l'accroissement automatique de la charge dû au fait que la hausse nominale des rémunérations et gains portèrent ceux-ci dans des tranches de revenus plus fortement taxées.

EVOLUTION DES RECETTES FISCALES

1938	Chiffres de 1938	Chiffres 1938 adaptés aux circonstances actuelles en les multipliant par 4,2 pour tenir compte des prix actuels	1954 (estimations)
		(en millions de francs)	
Impôts perçus par l'Adm. des Contr. Directes	3,2	13,4	33,7
Douanes et Accises . .	3,—	12,6	13,—
Impôts perçus par l'Adm. de l'Enregistrement	3,3	13,8	25,3
	9,5	39,8	72,—

La différence entre les chiffres de la deuxième colonne du tableau et ceux de la troisième, reflète l'incidence à la fois de l'accroissement de la charge fiscale et de l'expansion du produit national.

Ci-après quelques pourcentages permettant de mesurer l'accroissement de la charge fiscale frappant les personnes physiques.

IMPOTS SUR LES REVENUS DUS PAR UN SALAIRE CELIBATAIRE

Revenus imposables [1])	1937	1951
8.000 frs. en 1937 correspondant à 37.600 frs. en 1951 [2])	0,5 %	5,54 %
15.000 frs. en 1937 correspondant à 70.000 frs. en 1951	2,31 %	11,08 %
36.000 frs. en 1937 ou 169.000 frs. en 1951	6,17 %	21,— %
75.000 frs. ou 350.000 frs.	9,31 %	33,— %

A juger d'après ces pourcentages la charge frappant les revenus gagnés des personnes physiques a beaucoup plus que triplé. Cela ne se reflète pas dans le produit des impôts directs parce que les pourcentages pour les contribuables mariés ayant charge de famille sont moins lourds, parce que les impôts frappant les sociétés, déjà substantiels avant la guerre, n'ont pas vu leur pourcentage augmenter dans la même mesure et, en troisième lieu, parce que en règle générale la charge des impôts directs autres que les impôts sur les revenus, n'a pas été alourdie.

Avant la guerre les bénéfices des sociétés mis en réserve étaient taxés, impôts locaux y compris, à raison de 27 %, tandis que les bénéfices distribués payaient 24,2 %.

Actuellement les bénéfices réservés sont favorisés par rapport aux bénéfices distribués. Les dividendes payent 42 à 45 % [3]) et les bénéfices réservés 32 % à 39 % à condition qu'il y ait paiement anticipatif.

Depuis 1951 des avantages ont été accordés aux contribuables, sociétés ou certaines catégories de personnes physiques, payant anticipativement leurs impôts. Auparavant les salariés et rémunérés étaient taxés moins lourdement que les autres contribuables. La présomption de fraude fiscale en ce qui concerne les non salariés était vraisemblablement à la base de cette discrimination. Durant

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1) Le revenu imposable d'un salarié est jusqu'à un certain plafond, égal aux ¾ du revenu brut, après déduction des cotisations pour charges sociales.

2) Ceux qui gagnaient 8.000 frs. en 1937 gagnent actuellement 37.600 francs.

3) 30 % de taxe mobilière et 20 % de contribution nationale de crise. Toutefois la déductibilité des impôts payés et le fait que les deux impôts sont calculés sur la même base, ramènent la taxation totale au pourcentage 42 à 45.

l'année précitée, l'égalité fiscale entre les différentes catégories de contribuables a été réalisée, mais à la condition que les bénéficiaires de cette mesure payent leur dû durant l'année même de la création des revenus, exactement comme le font les salariés (impôts retenus à la source). S'il n'y a pas de paiement anticipatif le supplément est de 20 %.

Les bénéfices distribués des sociétés sont, bien entendu, encore passibles, dans le chef des personnes physiques, de l'impôt sur le revenu global. Mais cet impôt aussi n'a pas la sévérité que feraient supposer les pourcentages les plus élevés, parce qu'il est calculé par tranches. Un actionnaire ayant un revenu imposable de 200.000 frs. paye 4 % à titre d'impôt sur le revenu global.

Tout compte fait les dividendes sont donc taxés moins lourdement qu'on ne le croirait. Comparées aux pourcentages de taxation d'autres pays, les exigences du fisc belge paraissent plutôt raisonnables. Ici aussi le gouvernement a fait preuve de réalisme. En effet, n'est-ce pas contradictoire de taxer à l'extrême le produit des capitaux à revenu variable et de clamer en même temps les bienfaits de l'entreprise privée et la nécessité d'investissements abondants. Les bénéfices des sociétés ont été, et sont encore maintement, la source presque exclusive du financement des investissements de l'appareil de production. Les gêner outre mesure, c'est entraver l'investissement et provoquer, soit des stimulants de tout genre, soit des réformes de structure.

Eu égard aux bénéfices faciles et plus élevés rialisés par certaines industries à la faveur du „boom" qui a suivi la guerre de Corée, une taxe sur les bénéfices exceptionnels réalisés en 1951 a été instituée. Son pourcentage est de 25 %. Ce qui a été payé comme taxe à l'exportation (voir détails plus loin) est considéré comme un précompte pour ceux qui sont redevables de la surtaxe.

Les droits de douane et les accises par le seul effet de la hausse des prix auraient dû produire en 1954 quelques 12,6 milliards. Le produit estimé pour 1954 est de 13 milliards. Il n'y a donc dans l'ensemble pas d'augmentation de la charge. Ceci est en ordre principal attribuable aux droits de douane. Le tarif Bénélux d'application depuis 1948 est moins productif que le tarif d'avant la guerre. Les droits d'accise, par contre, ont été aggravés pendant la guerre et leur rendement dépasse certainement, toutes proportions gardées, celui d'avant 1940. Une série de modifications, généralement en rapport avec l'unification de ces droits dans le cadre de Bénélux, ont été apportées aux accises dans la période d'après-guerre. Rappelons que cette unification a été votée par le Parlement mais que son application demande pour une série de droits encore certaines mises au point.

Les accises frappant les huiles minérales (3,20 frs. le litre), les bières (1,20 frs. le litre), les alcools (100 frs. le litre à 50°), et le tabac (7,13 frs. le paquet populaire de 25 cigarettes), représentent à elles seules la très grande majorité du produit total des accises.

L' accroissement du produit des taxes perçues par l'Administration de l'Enregistrement est dû à la catégorie des taxes qui sont appelées en Belgique taxes assimilées au timbre et qui ne sont autres que les impôts sur les ventes, en ordre principal la taxe de transmission pour les produits ordinaires et la taxe de luxe pour les produits réputés de luxe.

A l'origine la taxe de transmission était un impôt à cascade frappant chaque transaction de marchandise à l'exception de la vente du détaillant au consommateur. Par après, pour certains produits, la taxe à cascade a été remplacée par une taxe à la production au taux renforcé. Le régime actuel a donc un caractère double avec tendance à la généralisation de la taxe à la production.

En 1939 l'impôt à répétion était encore 2,6 %. Il fut successivement porté à 3,5 % en 1940 et 4,5 % en 1941. Depuis lors, le taux est resté invariable. Le taux de la taxe à la production est généralement 9 %, tandis que les taxes de luxe varient de 10 à 12 %.

En général les exportations belges sont exonérées de la taxe de transmission. En juin 1948, pour des raisons d'ordre social, cette exonération fut supprimée temporairement pour soumettre les produits exportés à une taxe de 3 %. A l'époque, la pénurie était encore générale dans les pays voisins et les prix à l'exportation n'avaient qu'une signification secondaire. Les bénéfices des industries exportatrices étaient par conséquent assez larges, tandis que les salaires et rémunérations étaient légalement fixés. Le produit de la taxe devait alimenter un fonds de 1.200 million de francs destiné à payer une prime d'assiduité aux ouvriers et à octroyer un mois supplémentaire d'allocations familiales.

Une taxe semblable fut introduite une seconde fois en 1951 dans le but de freiner les exportations pour atténuer ainsi le développement de la position créditrice extrême de la Belgique auprès de l'U.E.P. Cette fois aussi la raison déterminante de l'instauration de la taxe ne fut donc pas d'ordre budgétaire. Les sommes payées par les redevables ont été considérées comme un précompte sur ce qui était dû par eux à titre de surtaxe sur les bénéfices exceptionnels de l'année 1951. Le taux de la taxe ne fut pas uniforme; il était de 1 %, 2 % ou 3 % d'après la catégorie de produits. A différentes reprises la taxe fut modifée quant à son taux et quant à son champ d'application. Elle fut supprimée définitivement en février 1953. D'aucuns ont considéré les taxes à l'exportation comme une preuve de surévalution du franc belge dans le passé.

Actuellement une taxe à l'importation est en vigueur. Elle a été instaurée en mars 1953. Il ne faut pas lui attribuer une signification spéciale en rapport avec la politique économique générale. Elle a été appelée taxe compensatoire et vise à établir l'équivalence entre l'impôt sur les ventes frappant les produits fabriqués dans le pays et ceux importés de l'étranger. Le jeu de l'exonération de la taxe sur les ventes en ce qui concerne les produits exportés, pratiqué par tous les pays, a en Belgique et sans doute aussi dans les autres pays, pour conséquence que les impôts indirects incorporés dans le prix de vente des produits importés sont moins élevés que lorsqu'il s'agit de produits similaires fabriqués dans le pays. Cette différence, sans grande importance lorsqu'il existe des droits d'entrée, devient sensible quand les entraves au commerce extérieur sont minimes comme c'est le cas dans Bénélux. Bien qu'elle s'applique aux importations d'où qu'elles viennent [4]), la taxe compensatoire n'est pourtant pas d'application générale; elle ne frappe que certaines catégories de marchandises [5]). Le taux est variable et s'étend de 2 à 5 %.

Depuis longtemps déjà l'exonération des taxes indirectes est un système généralisé. Les remboursements d'impôts directs, restent plutôt l'exception et s'ils sont pratiqués ce n'est pas tellement en raison de leur incidence, mais assez souvent pour corriger des taux de change fixes ne correspondant plus à leur valeur intrinsèque. Et pourtant, de plus en plus on admet que les impôts directs s'incorporent dans une certaine mesure, dans le produit de revient des produits. D'aucuns prétendent même que leur incidence est totale. L'impôt direct n'a donc pas mérité tout à fait l'auréole dont il fut glorifié lors de sa généralisation il y a quelques décades. Il n'est pas entièrement cet impôt idéal, d'abord à cause de son incidence indéniable et en second lieu à cause des inégalités flagrantes qu'occasionne inévitablement sa perception. On peut dès lors se demander s'il ne s'indique pas de revoir les conceptions encore générales à l'égard de l'impôt direct.

Il est toujours de coutume de subdiviser les impôts en taxes majorant les prix de revient (impôts indirects) et en contributions ne majorant pas directement le prix de revient (impôts directs). Réparti d'après ce critère, on obtient pour l'ensemble des impôts perçus en 1951 par l'Etat et les pouvoirs subordonnés: 47 % — contributions directes; 53 % — impôts indirects.

L'ensemble du prélèvement fiscal (Etat et pouvoirs subordonnés) représentait durant l'année précitée, 24,3 % du revenu national.

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4) A l'exception du Grand Duché de Luxembourg.

5) L'application n'a pas été généralisée parce qu'il a été convenu avec les Pays-Bas que ces derniers renoncent à certains remboursements de taxes à l'exportation.

La fiscalité d'avant-guerre portait déjà l'empreinte de considérations non fiscales. A titre d'exemple, citons les réductions d'impôts pour les bénéfices investis dans la construction de maisons d'habitation en faveur du personnel de l'entreprise. Ces caractéristiques, on les retrouve également dans la politique fiscale d'arès-guerre. Pensons à la taxe d'exportation, aux impôts d'assainissement monétaire, etc. . . . D'autres dispositions de ce genre sont en préparation; elles visent l'octroi de facilités fiscales aux entreprises nouvelles. On voit donc la politique fiscale, en dépit de l'égalité fiscale, se mettre au service de certains objectifs d'ordre économique. Cette évolution, quoique indéniable, n'a toutefois pas atteint des proportions qui permettent d'affirmer que la politique fiscale veut manifestement influencer fondamentalement les conditions économiques. On ne rencontre pas en Belgique un genre de „purchase tax" au pourcentage à ecart très large, ni les pourcentages très élevés et prohibitifs qu'atteignent parfois les impôts sur les revenus dans d'autres pays.

Mais, même quand la politique fiscale ne recherche pas des effets secondaires il n'en reste pas moins vrai que les finances publiques, prises dans leur ensemble, par la part qu'elles prélèvent sur le revenu national pour le redistribuer à différentes catégories de bénéficiaires, ont un effet social et économique plus considérable que beaucoup ne s'imaginent.

Dans le cadre des comparaisons budgétaires qui ont eu lieu au

DEPENSES ET RECETTES DE L'ETAT SUBDIVISEES D'APRES DES CRITERES ECONOMIQUES

Dépenses	Milliards de francs	Recettes (fiscales uniquement)	
Dépenses de consommation	40,—	Impôts sur les bénéfices, les revenus et le capital .	32,6
Intérêts et pertes . . .	8,3	Impôts augmentant les prix de revient	38,8
Transferts de revenus .	18,3		
Transferts de capitaux .	3,6		71,4 [7]
Investissements directs .	16,5		
Investissements indirects	1,2		
Avances de capitaux . .	2,8		
Subsides aux pouvoirs subordonnés pour des buts de consommation et pour des buts d'investissement	10,9		
	101,6 [6]		

[6] Le montant de 101,6 milliards est légèrement supérieur à celui du budget total de 1953, parce qu'il comprend egalement l'ensemble des dépenses sur les fonds spéciaux figurant aux comptes pour ordre.

[7] Les recettes non fiscales sont de l'ordre de 8 milliards.

Secrétariat du Bénélux, les dépenses et recettes ont été groupées d'après des critères économiques. Ainsi réparties, elles présentent un meilleur aspect de l'influence des finances publiques sur l'ensemble de l'économie. Voici le résumé de ces comptes.

c) *Le financement du découvert*

Il est très difficile sinon impossible, d'indiquer exactement le mode de financement des dépenses d'un exercice. Ceci est du au fait que la durée de l'exercice est de 15 mois et que, par conséquent, pendant 3 mois, 2 exercices chevauchent, alors qu'il n'y a qu'une caisse pour les financer. Ces dernières années la durée de 15 mois a même souvent été prolongée à cause d'arriérés dans la perception des impôts. En parlant de financement, il faut donc nécessairement se baser sur l'année civile plutôt que sur l'exercice.

En Belgique, aussi bien qu'ailleurs, je présume, les comptes du Trésor forment un ensemble volumineux qui ne se distingue pas particulièrement par sa simplicité. Ce sont les fonds pour ordre qui rendent très compliquée la tâche de ceux qui essayent de donner en quelques postes un aperçu du financement des dépenses publiques. En dehors des fonds de tiers proprement dits, les comptes pour ordre comprennent des fonds spéciaux qui sont alimentés, entre autres, par des dotations budgétaires. La dépense est enregistrée dans les comptes budgétaires lorsque l'opération comptable de transfert aux fonds spéciaux a lieu. Mais ce transfert d'une main à l'autre ne donne lieu à aucune dépense pour le Trésor, bien que dans les comptes budgétaires la dépense ait été enregistrée. Le décaissement effectif n'a lieu que plus tard au fur et à mesure de la liquidation des engagements sur les fonds spéciaux.

Les opérations de l'Office des Comptes Chèques sont une autre cause de complication des comptes pour Ordre. Les paiements par virement dans le circuit bancaire sont en Belgique moins fréquents, peut-être, que dans certains autres pays développés. Mais il existe un service public appelé Office des Comptes Chèques-Postaux dont l'unique but est d'organiser les paiements et les virements par chèques. L'Etat fait ses paiement par l'intermédiaire de ce service et les particuliers aussi font largement appel aux facilités qu'offre celui-ci. Le succès de ce mode de paiement se mesure facilement par les avoirs en comptes du service. Ces avoirs s'élevaient à 20 milliards à fin 1953 (à comparer aux 65 milliards de l'ensemble des dépôts en banque). L'Office des Comptes Chèques-Postaux, étant un service administratif, doit verser ses recettes au Trésor et payer ses dépenses à l'intervention de ce dernier. Il s'ensuit, d'une part, que les avoirs en comptes chèques sont utilisés à des besoins de Trésorerie et, d'autre part, que toutes les opérations de débit et de

crédit figurent dans les comptes pour ordre. Considérant qu'il s'agit de nombreux milliards par jour, on comprend aisément que la comptabilité des fonds pour ordre est affectée de sommes astronomiques.

La réforme de la comptabilité publique dans le sens de l'élimination des opérations sans mouvements de fonds et l'autonomie entière de l'Office des Comptes Chèques-Postaux, sont actuellement à l'étude au Département des Finances. Les services compétents de ce Département veulent en arriver à une méthode de présentation des comptes du Trésor, non seulement parfaite au point de vue comptabilité, mais également représentative quant à l'exposé des procédés rèels de financement.

Les chiffres ci-après fournissent un aperçu synthétique approximatif du financement par le Trésor de la différence entre les dépenses et les recettes constatées pour l'ensemble des exercices 1947 à 1952.

SOLDE DES DEPENSES ET DES RECETTES BUDGETAIRES POUR LA PERIODE 1947 à 1952. FINANCEMENT

a) *établissement du solde*

(en millions de francs)

Exercice	Résultat du budget ordinaire	Budget extraordinaire			Découvert total
		Dépenses	Recettes	Solde	
1947	— 4.483	5.748	215	— 5.533	— 10.016
1948	+ 378	7.729	677	— 7.052	— 6.674
1949	— 4.015	12.608	548	— 12.060	— 16.075
1950	+ 394	13.418	560	— 12.858	— 12.464
1951	+ 9.934	14.563	367	— 14.196	— 4.262
1952	+ 1.804	21.288	1.819	— 19.769	— 17.665
					— 67.156

b) *Financement du découvert*

Appel au marché des capitaux

Dette à long terme [8]	32.—	milliards dont 5.4 emprunté à l'étranger
Dette à moyen terme [9]	6.—	milliards dont 3.3 emprunté à l'étranger
Emprunté en ordre principal auprès des banques et subsidiairement à la Banque Nationale	14.—	milliards
Opérations spéciales	15.—	milliards
	67.—	mllliards

Les opérations spéciales comprennent entre autres, le disponible de la Caisse Autonome des Dommages de guerre (6,5 milliards), la

8) Nouvelles émissions, c'est-à-dire augmentation de la dette consolidée, majorée des amortissements.

9) Accroissement de la dette à moyen terme.

mobilisation auprès de la Banque Nationale d'un droit de tirage spécial auprès du Fonds Monétaire International, en rapport avec des remboursements à terme promis par l'U.E.P. à la Belgique (2 milliards), l'emploi de la réserve de réévaluation de l'or consécutive à la dévaluation de 1949 (4,3 milliards), etc.

III. LA SITUATION MONETAIRE

L'assainissement monétaire avait bloqué les avoirs monétaires: définitivement à raison de 60 %, temporairement à raison de 40 %.

Le déblocage des 40 % s'est échelonné sur une période de plus de quatre ans. Ce n'est qu'en janvier 1949 que le reliquat a été libéré. En octobre 1944, on n'avait pas cru que le rythme de déblocage aurait été si lent. La période a été prolongéé parcequ'entretemps d'autres causes avaient provoqué une expansion monétaire trop accentuée.

A partir d'octobre 1944 la dette flottante fut pratiquement consolidée dans les banques par des prolongations succesives de l'échéance des certificats du Trésor en circulation. Après ces reports d'échéance, le gouvernement eut recours à un autre système appelé régime des coefficients de couverture. Ce régime, à allure plus définitive, impose aux banques l'obligation de maintenir en portefeuille des certificats de Trésorerie à raison d'environ 60 % de leurs dépôts.

Depuis 1935 les banques belges sont soumises à une réglementation contrôlant strictement les banques de dépôt. Depuis l'instauration de ce contrôle, la banque mixte est supprimée en Belgique. La législation bancaire autorise le Gouvernement à établir pour les banques de dépôts des coefficients de liquidité et des coefficients de solvabilité. Ce moyen pour influencer le marché monétaire n'a pratiquement pas été employé jusqu'à présent.

Le système des coefficients de couverture profite au Trésor qui s'octroie une part substantielle de l'augmentation des dépôts. Il semble restrictif pour les banques, qui voient ainsi la masse monétaire constituant la base d'une expansion possible de crédit, fortement réduite. Il l'est pourtant moins qu'on ne le croit généralement, parce que les sommes prélevées par l'Etat en vertu du jeu des coefficients, ne restent pas inactives, continuent leur voie dans le circuit monétaire et vont regarnir les dépôts bancaires.

Malgré le caractère apparemment restrictif du règlement exposé, on constate que l'appareil bancaire a pu répondre à toutes les demandes de crédit. Pour s'en rendre compte, il suffit de vérifier les taux des crédits de caisse. Ceux-ci s'établissent en ce moment entre 6 % et 6,5 %, soit exactement le niveau d'avant-guerre. Le marché monétaire s'est procuré les liquidités supplémentaires indispensables par le réescompte à la Banque Nationale. Ainsi le système des

coefficients de couverture a contribué à remettre en honneur la politique de réescompte et, par conséquent, l'influence classique de l'Institut d'Emission sur le marché du court terme.

A l'origine, le règlement des coefficients avait plutôt été conçu comme instrument devant éviter la monétisation de la dette flottante, et non comme moyen d'accroître d'une façon assez commode pour le Trésor cette même dette flottante. Mais, étant donné les difficultés de Trésorerie, aucun Ministre des Finances n'a pris l'initiative de tarir cette source de financement.

Avant l'assainissement monétaire, la circulation en billets de la Banque Nationale atteignait 100 milliards. Huit ans après, notamment à la fin de 1953, on retrouve cette circulation, à quelques milliards prrès, au même niveau d'avant l'assainissement. L'expansion monétaire qui eut lieu pendant ces huit ans est due aux différentes causes que voici: la libération des avoirs temporairement bloqués, les avances de la Banque d'Emission à l'Etat et les crédits à l'étranger pour le financement du commerce extérieur.

Les 25 milliards d'avoirs temporairement bloqués, ont été remis en circulation, progressivement en l'espace de quatre années.

Le recours par le Trésor à la Banque Nationale se situe, évidemment, pour la très grande partie, dans les années de déséquilibre budgétaire, c'est-à-dire de 1945 à 1947. Depuis 1948, les nouvelles avances pour les besoins de financement des budgets ont pu être limitées à quelques quatre à cinq milliards.

Le financement du commerce extérieur fut durant toute la période de l'après-guerre une cause de graves soucis pour le gouvernement.

Traditionnellement la balance commerciale de la Belgique, pays transformateur de marchandises, cache sous un aspect d'ensemble normal un double déséquilibre: un boni avec les pays européens et un mali avec la zone dollar. Si, en période de convertibilité cette situation est sans inconvénient, depuis la libération elle constitue une source de difficultés.

Ce n'est pas tant le déficit dollar qui a causé des inquiétudes. Le Gouvernement, par l'emprunt à l'étranger, par l'aide Marshall indirecte et par d'autres voies exceptionnelles, est toujours parvenu à trouver les dollars nécessaires pour combler ses déficits. Ce fut avant tout le déséquilibre vis à vis des pays européens qui fut parfois pénible pour le pays. De 1945 à 1948, la Belgique a, dans le cadre des accords de paiements bilatéraux, accordé pour 10 milliards de crédits aux pays européens. L'aide américaine indirecte apporta une amélioration et avait pour conséquence de réduire le volume des crédits à 6,9 milliards. Une brusque recrudescence eut lieu durant les deux premières années d'application de la technique de l'Union Européenne des Paiements. Plusieurs causes sont à la

base de ce nouvel accroissement des crédits: la mise en application de l'U.E.P. signifiait la fin de la discrimination de certains pays contre les produits belges; le réarmement généralisé valut d'importantes commandes à l'industrie lourde; une certaine inflation dans des pays européens rendait les prix belges avantageux. A la fin de la première période biennale de l'U.E.P., les crédits belges accordés par l'entremise de cet organisme atteignaient 21,2 milliards. Et en dehors de cela il restait encore quelques milliards de crédits antérieurs à rembourser.

La Banque Nationale avait accepté de financer les crédits à l'U.E.P. octroyés à l'intérieur du quota, soit 10 milliards. Le Trésor a dû prendre en charge le financement des autres 11,2 milliards. Il a fait supporter cette charge, à raison de 4,5 milliards, par les exportateurs en organisant le blocage d'une partie des paiements faits à ces derniers.

En plus de ce blocage, toute une série d'autres mesures furent prises. Citons seulement le rétablissement d'une taxe sur la valeur des produits exportés, ainsi que le contingentement des exportations dans le but de contrôler l'origine des paiements et la concordance de ces derniers avec les opérations commerciales effectuées.

L'U.E.P. à l'occasion de sa première prolongation en juin 1952 se montra compréhensive pour les exigences très fermes formulées par la Belgique. A deux milliards près les 11,2 milliards de crédits excédant le quota belge, furent remboursés, soit au comptant, soit à terme.

A la même occasion la Belgique, en vue des opérations futures, avait accepté un élargissement important de son quota. Contre toute attente ce supplément de quota n'a pas été entamé largement durant la période d'un an et demi qui nous sépare de juin 1952. Les restrictions quantitatives sévères par la France et l'Angleterre sont certainement pour beaucoup dans cette évolution un peu inattendue. Durant la même période aussi le déficit dollar a beaucoup perdu de son intensité et vers la fin de 1952 un équilibre relatif s'établissait dans les comptes avec la zone dollar.

Les mesures entravant les exportations vers l'U.E.P. ont été progressivement démobilisées. Les retenues à l'exportation ont subsisté le plus longtemps. A la fin de 1953, un plan de liquidation progressive des retenues à l'exportation a été établi. Ce plan prévoit la suppression complète pour le premier semestre de 1955. Les taux de retenues en vigueur en décembre 1953 varient entre 3 et 16 %. Auparavant, ils avaient été beaucoup plus élevés.

A fin 1953, l'ensemble des crédits à l'étranger ayant provoqué une expansion monétaire correspondante, s'établissait à environ 15 milliards. Normalement cette expansion résultant du commerce avec la

zone U.E.P. aurait dû être neutralisée par la perte d'or ou de devises fortes provoquée par les déficits vis-à-vis de la zone dollar. Ceci n'a pas eu lieu ou n'a eu lieu que partiellement parce que le déficit dollar a été couvert, en partie, par le produit des prêts en dollars ou en d'autres devises fortes.

L'imposante augmentation de la circulation monétaire n'a jamais créé l'impression d'un développement inflatoire. Et, effectivement, aucun symptôme ne permet de conclure qu'il y aurait un déséquilibre du côté monétaire. La circulation atteint à peu près quatre fois le montant d'avant-guerre, soit un niveau restant sensiblement en-dessous des incides des prix et salaires, en présence d'un volume de production beaucoup plus ample qu'avant-guerre. A celà il faut ajouter que la couverture de la monnaie en or reste très appréciable. Elle était de 39 milliards en décembre 1953 (pour une circulation de 100 milliards) et, dépasse nettement en volume celle de 1938.

Une loi du 28 juillet 1948 portait assainissement du bilan de la Banque Nationale, c'est-à-dire liquidation des différents comptes reflétant les conséquences de la guerre. C'est ainsi que le produit de l'emprunt de l'assainissement monétaire, figurant à un compte bloqué auprès de la Banque Nationale (63,7 milliards), ainsi que le produit de la réévaluation de l'or consécutive à la dévaluation du franc en 1944 (10,5 milliards) et la valeur des billets de banque non échangés lors de l'assainissement monétaire (4 milliards), ont été employés à l'amortissement du compte avances au clearing belgo-allemand (64,6 milliards) et, pour le solde, à l'amortissement partiel des avances par la Banque à l'Etat.

En même temps que l'assainissement du bilan de la Banque Nationale, furent votées des modifications au statut de la Banque.

La Banque Nationale a été créée en 1950 par une loi. Son capital a été constitué par le secteur privé. Juridiquement il s'agissait d'un service public géré sous forme de société anonyme. Le législateur de 1948 a voulu souligner le caractère public de la Banque Nationale en augmentant son capital de 200 à 400 millions et en réservant cette nouvelle tranche de capital à l'Etat. Ainsi, la Banque Nationale a acquis depuis lors toutes les caractéristiques de l'entreprise d'économie mixte.

La même loi stipule que dorénavant les possibilités d'avances de la Banque Nationale à l'Etat sont établies de commun accord entre le Gouverneur de la Banque Nationale et le Ministre des Finances. Auparavant, la limite des avances devait être fixée légalement. Le maximum des avances au Trésor fut fixé à 10 milliards. Après assainissement du bilan de la Banque et consolidation de 35 milliards d'avances à l'Etat, le solde des avances non consolidées atteignait 2,5 milliards. Ainsi, au moment de l'accord, le Ministre

des Finances disposait auprès de l'Institut d'Emission d'une marge de 7,5 milliards.

Le contrôle rigoureux des changes, institué en 1944, fut adouci à partir de 1946. Depuis lors, l'autorisation nécessaire pour chaque opération avec l'étranger fut remplacée, dans la très grande majorité des cas, par une simple déclaration de l'intéressé.

Déjà en 1948, la Belgique aurait pu envisager de rétablir la convertibilité. Mais, malheureusement, l'inconvertibilité dans les autres pays européens rendait une telle politique impossible. Malgré cela, de nombreuses décisions ont atténué, dans une mesure de plus en plus grande, le contrôle des changes. Depuis 1950, il existe un marché libre pour toutes les monnaies étrangères sous forme de billets et cela sans limitation de montant. Le contrôle des changes n'est donc plus absolu et la convertibilité existe partiellement.

Le rôle actuel du contrôle est de surveiller les mouvements de capitaux, spécialement dans le secteur du transit et d'assurer l'exécution des accords de paiement.

IV. LE MARCHE DES CAPITAUX

Traditionnellement, la Belgique est un pays d'argent cher. Avant la guerre les exportations de capitaux étaient abondantes. Tout en provoquant une tension sur le marché national, ces exportations avaient pour conséquence un certain alignement du taux à l'intérieur sur le produit assez lucratif des placements à l'étranger. L'économie belge, vu ses salaires relativement bas, supportait cet handicap.

Malgré la cessation pratique d'exportation de capitaux après la libération, l'argent à long terme est resté cher en Belgique. Il l'est même sensiblement plus qu'auparavant. Avant 1940, une émission d'Etat à 4 % était courante. Après la guerre le taux de capitalisation des émissions s'est progressivement élevé pour dépasser parfois 5 %. Le niveau de ce lourd taux d'intérêt est devenu une préoccupation pour le Gouvernement.

La cause du renchérissement des capitaux se trouve du côté de la demande. Le rééquipement de l'appareil industriel, la restauration des dommages de guerre, la construction abondante d'habitations et les besoins très élevés des pouvoirs publics, ont provoqué une certaine tension sur le marché des capitaux. Le gouvernement a préféré laisser fluctuer le taux de l'intérêt au lieu de recourir au dirigisme des investissements ou à la limitation de la consommation privée.

On constate que les investissements industriels d'après guerre ont, beaucoup plus que jadis, été financés par le procédé de l'autofinancement. Le changement de méthode, partiellement attribuable

aux conditions modifiées du marché des capitaux, a également été favorisé par des interventions administratives. Il a déjà été dit que le régime fiscal actuel, à l'encontre de ce qui existait avant-guerre, favorise la mise en réserve des bénéfices des sociétés. En outre, en 1948, eu égard à la hausse des prix, le fisc a autorisé des amortissements supplémentaires substantiels, trop substantiels même pour la capacité du moment de beaucoup d'entreprises. Au surplus, le fisc se montre très large pour les amortissements motivés par la vétusté économique de l'outillage.

La distribution des dividendes s'est ressentie de l'autofinancement. Un certain désintéressement au sujet des valeurs à revenu variable en fut la suite logique.

Lorsqu'on dit qu'il n'y a guère eu de contrôle des investissements privés en Belgique, il faut bien s'entendre. Les émissions publiques du secteur privé doivent obtenir l'autorisation de la Commission Bancaire, c'est-à-dire le service chargé de l'éxécution de la règlementation sur le contrôle des banques. Mais cette autorisation n'implique aucune appréciation de la part de la Commission Bancaire et l'obligation imposée aux entreprises a uniquement pour but de permettre une certaine régularisation de l'accès au marché des capitaux. La Commission Bancaire ne peut refuser l'autorisation; tout au plus lui est-il permis de remettre l'autorisation de quelques semaines au maximum.

S'il n'y a pas eu d'intervention directe et fondamentale, en ce qui concerne les investissements privés industriels, l'Etat ne s'est en tout cas pas désintéressé de l'évolution dans ce secteur. N'ayant pratiquement pas d'aide Marshall directe, le Gouvernement n'a pas eu les facilités qu'ont procuré les fonds de contrepartie à certains autres pays. Le Gouvernement s'est borné à créer des stimulants spécialement dans le domaine du crédit et de la construction d'habitations.

Déjà depuis 1939, le Gouvernement a autorisé d'octroyer la garantie de l'Etat à des crédits accordés par certains organismes de crédit prastataux, à la condition que les entreprises bénéficiaires fussent des entreprises nouvelles à caractère industriel. Ces possibilités ont été jugées trop étroites, et, en 1953, elles furent étendues dans deux sens: au lieu d'être limitées aux entreprises industrielles, la garantie peut dorénavant être octroyée à toutes les entreprises, qu'elles soient de nature industrielle, artisanale ou autre; au surplus, les extensions des entreprises existantes sont mises sur le même pied que les entreprises nouvelles. A la même occasion fut créée la possibilité d'octroyer des crédits à taux réduits. Les subsides-intérêts aux organismes parastataux de crédits peuvent atteindre jusque 3 %. La condition générale, aussi bien pour la garantie spéciale

que pour l'intérêt avantageux, est que les investissements projetés soient conformes à l'intérêt économique du pays.

Un projet de loi, actuellement déposé, veut étendre les avantages dont bénéficient les entreprises nouvelles. Ces avantages sont d'ordre fiscal.

Finalement, il faut encore mentionner une disposition de la loi établissant une surtaxe sur les bénéfices exceptionnels de l'année 1951, prévoyant que les bénéfices exceptionnels affectés à des investissements ne sont pas soumis à taxation supplémentaire.

L'Etat stimule également la construction. Des primes de 25.000 francs à 30.000 francs, majorées de 20 % par enfant à charge, avec au surplus des facilités de crédit, sont accordées à ceux qui construisent une habitation modeste. Les deux sociétés parastatales de construction ont de leur côté eu une activité intense durant les dernières années, spécialement sous l'impulsion d'une loi votée en 1949, pour une durée de cinq ans, et obligeant le gouvernement de réaliser, par l'entremise des sociétés précitées, des constructions pour un montant annuel de 2,5 milliards de francs. Aussi le secteur de la construction a-t-il généralement connu un plein emploi relatif et les habitations se sont-elles multipliées à un rythme jamais égalé auparavant. La construction intense n'est certes pas uniquement le résultat de l'intervention gouvernementale, mais est sans doute, en tout premier lieu, attribuable à l'accroissement du revenu national et à la redistribution, dans une certaine mesure, de celui-ci en faveur des classes moins aisées.

La demande de capitaux est particulièrement prononcée dans le secteur public. Toutes les années, à l'occasion de l'aperçu des besoins financiers du Trésor, des services publics autonomes et des pouvoirs subordonnés, le total obtenu dépasse très substantiellement les possibilités du marché des capitaux. Le département des finances fixe alors l'ordre pour le recours au marché des capitaux.

L'ampleur du budget extraordinaire de l'Etat (de 17 à 20 milliards) ne peut pas faire conclure que le Gouvernement poursuit une politique d'investissements publics abondants. En effet, le budget extraordinaire contient des investissements afférents à la défense nationale (6,5 milliards en 1953). Certains pays considèrent l'ensemble des dépenses militaires comme dépenses de consommation. Les raisons ne manquent pas pour étayer ce point de vue, tout comme la Belgique peut invoquer des raisons plausibles pour défendre sa thèse.

Déjà depuis 1947, le Gouvernement avait dressé un plan décennal pour l'ensemble des investissements du secteur public. Après le premier terme de cinq ans, en comparant les réalisations aux données de ce plan, on constate que les investissements des pouvoirs subor-

donnés, ont, dans l'ensemble, répondu aux prévisions; les investissements de l'Etat, par contre, sont restés substantiellement en-dessous des normes établies lors de l'élaboration du plan.

En dépit de l'étendue des besoins de l'Etat et des nécessités de financement très prononcées du secteur privé, une tendance à la baisse du taux de l'intérêt se dessine depuis 1952. L'écart n'est certainement pas fort prononcé, mais il est d'autant plus significatif qu'il va de pair avec une possibilité de prolongation de la durée des emprunts publics. Jusqu'en 1952, les émissions du gouvernement sur le marché intérieur étaient, à de rares exceptions près, des titres du type à 5 ans, 10 ans ou 15 ans d'échéance, au gré du porteur, sans plan d'amortissement. Depuis l'année précédente le Trésor est parvenu à émettre du papier, d'abord à 15 ans, puis à 20 ans et remboursable d'après un plan d'amortissement, donc à l'intermédiaire de dotations budgétaires. Auparavant, les échéances massives étaient un cauchemar pour le Ministre des Finances. Maintenant, les nouvelles émissions sont amorties progressivement par le canal des dépenses budgétaires.

Il n'est pas si facile d'expliquer l'amélioration des conditions sur le marché des capitaux. L'année 1951 et le début de l'année 1952 furent avantageux au point que le gouvernement jugea utile d'instituer une taxe sur les bénéfices exceptionnels, une taxe à l'exportation, etc. . . . Cet emballement cessa à la fin du premier semestre 1952. La conséquence en fut-elle, comme parfois au début d'une crise économique, une augmentation des disponibilités sur le marché? Ou bien le mouvement constaté est-il le reflet d'une tendance plus que nationale? En effet, une baisse sensible s'est manifestée également dans différents autres pays, les Etats-Unis exclus. Le Trésor ne s'est-il pas rendu compte immédiatement du mouvement qui se dessinait et a-t-il tenu le plan d'émission du secteur public, malgré les larges besoins de celui-ci dans des limites plus étroites que les circonstances ne l'auraient permis? Ce serait une tâche particulièrement ardue de départager l'influence de ce facteur, et d'autres encore, sur l'evolution constatée.

Ce mouvement n'est non plus pas imputable à une action du gouvernement dans le but de soutenir le cours des rentes. Il existe un Fonds des Rentes en Belgique. Celui-ci a été créé en 1945. Ses moyens sont limités. Il finance ses opérations par le „call money", qu'il parvient à trouver sur le marché, et, pour le reste, reçoit des avances de la Banque Nationale, qui toutefois, sont considérées comme avances à l'Etat et imputées, par conséquent, sur la marge dont dispose le Trésor auprès de l'Institut d'Emission. Le rôle du Fonds des Rentes n'est pas tellement d'influencer le cours des rentes, les moyens sont trop limités pour cela, mais uniquement de contri-

buer au bon fonctionnement du marché des rentes en élargissant celui-ci. Le portefeuille du Fonds des Rentes fluctue aux environs de 3,5 milliards, ce qui est peu de chose pour un marché de 150 milliards de titres du secteur public, et certainement insuffisant pour avoir une action dirigeante.

V. PERSPECTIVES D'AVENIR ET QUELQUES CONSIDERATIONS GENERALES

L'influence de la guerre sur les finances publiques va plutôt en décroissant; la législation sociale est très développée et là aussi des dépenses supplémentaires importantes sont improbables; les dépenses de défense nationale sont vraisemblablement à leur maximum: tout ceci permet d'espérer que les dépenses publiques belges ne sont pas loin d'avoir atteint un plafond. Il n'y a que l'amortissement de la dette publique qui, en ce moment, fait prévoir un autre accroissement des dépenses. Ces amortissements sont peu de chose pour l'instant, mais la nouvelle politique d'émission, prévoyant l'amortissement des emprunts par des dotations budgétaires, fera gonfler assez substantiellement le charge de la dette publique dans quelques années. Toutefois, cette dépense supplémentaire pour amortissement n'affectera pas la politique financière dans son ensemble, parce que, en amortissant, le Trésor améliorera le marché auquel il doit s'approvisionner.

L'évolution ultérieure probable de la défense nationale ne sera pas sans influencer les finances publiques. Comme on voit les choses en ce moment cette influence ne se manifestera pas quant au niveau global des dépenses; il se fera sentir plutôt en ce qui concerne la structure de celles-ci. Le début de l'effort intensif de défense nationale est marqué par des dépenses d'investissement abondantes. Celles-ci figurent au budget extraordinaire. Une fois l'effectif de défense sur place, les frais d'investissement diminuent, tandis que les frais d'entretien s'accroissent. Un glissement de dépenses extraordinaires vers les dépenses ordinaires aura donc lieu.

Du côté des recettes il n'est pas téméraire de prévoir la continuation du développement de celles-ci. L'expansion presque constante du produit national a été une des origines des larges plus-values fiscales réalisées dans les années antérieures. Si la marche ascendante du produit national se maintient, et il n'y a pas de raisons de croire qu'il n'en sera pas ainsi, on pourra logiquement s'attendre à un accroissement des recettes. Ces recettes supplémentaires seraient de nature à alléger la tension que provoquent les finances de l'Etat sur le marché des capitaux et permettront d'en arriver ainsi à la réduction souhaitée du taux d'intérêt pour le long terme.

La politique économique et financière d'après la libération est restée axée sur la liberté économique et sur l'orthodoxie financière. Ce ne sont pas tellement des raisons idéologiques qui déterminèrent la voie suivie, parce que le belge est réaliste et individualiste. Il aurait été difficile de suivre une voie en désharmonie avec ce tempérament.

La suppression du rationnement en un temps record, la hausse des salaires réels, un développement de la production proportionnellement égal à l'expansion industrielle des Etats-Unis pendant la même période, une législation sociale exceptionnellement favorable, l'équilibre monétaire et budgétaire, la paix sociale: tout cela sont des réalisations d'après guerre dont la Belgique peut s'enorgueillir.

La médaille n'est, toutefois, pas sans revers. Deux points attirent particulièrement l'attention, d'abord la position concurrentielle du pays sur le plan international et puis l'existence d'un certain chômage.

Dans la lutte économique serrée se manifestant de nouveau sur les marchés internationaux, les salaires élevés, le coût de la sécurité sociale étendue et le taux d'intérêt assez lourd, sont de nature à handicaper la position belge. L'adaptation de l'appareil industriel belge a été sérieuse, mais le maintien du niveau de vie exige une adaptation supplémentaire, d'autant plus que le marche belge doit, en raison de la structure du pays et de sa population, être nécessairement un marché ouvert.

Il existe un certain chômage en Belgique, plutôt de nature structurelle. Mais son importance ne doit pas être exagérée. En effet, la législation sur le chômage est très large et le contrôle n'est pas toujours des plus sévères. On entend parfois dire que l'application de la législation en cette matière, en vigueur dans d'autres pays évolués, réduirait très fortement le nombre des chômeurs. Quoi qu'il en soit, le problème du chômage a une incidence sociale, amplifiée encore par le fait qu'il est localisé dans une partie du pays, notamment dans les provinces flamandes.

Le Gouvernement se rend parfaitement compte de l'ampleur de l'effort nécessaire qu'exigent ces circonstances. Différentes mesures prises ces derniers temps nous l'indiquent. Et il continue à y concentrer son attention. Pour preuve les projets comportant la création d'une Société Nationale d'investissements [10]) et l'octroi de dégrèvements fiscaux en faveur d'entreprises nouvelles ou en faveur de bénéfices mis à la disposition de l'organisme parastatal pour les

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10) La Société Nationale d'investissements prendrait temporairement des participations minoritaires lorsqu'elle en serait sollicitée, à l'occasion de la création de nouvelles entreprises.

crédits à long terme, notamment la société Nationale du Crédit à l'Industrie.

Tout le long de la période envisagée, l'économie belge a fait preuve de vitalité et de dynamisme. Ces qualités sont des garanties pour l'avenir. Mais une condition est fondamentale pour la Belgique, petit pays à population excessivement dense et dépourvu de richesses naturelles: la liberté du commerce international. Toute initiative visant à rétablir la convertibilité des monnaires ou à réduire les restrictions quantitatives ou douanières, trouvera la Belgique parmi ses défenseurs. Le pays a la conviction que le rétablissement de la libre circulation des marchandises et de capitaux, ne sert pas uniquement ses propres intérêts, mais également ceux de la communauté de tous les peuples.

BELGIAN POST-WAR BUDGETARY AND FINANCIAL POLICY

BY M. H. D'HAEZE

SUMMARY

Immediately after the liberation of its territory Belgium undertook a severe money purge with the double aim of limiting as far as possible the damage of a monetary nature and creating the conditions that would enable it to return as soon as possible to orthodox finance and to a greater economic freedom. This policy has had the results anticipated and the curbing of the inflation as well as the rapid disappearance of all sorts of hindrances were a strong incentive for the Belgian economy. Helped, moreover, by exceptionally high receipts of foreign currency, Belgian recovery has been spectacular and has come about in record time.

Soon the inconvertibility of currencies placed the country before a serious problem: its exports to European countries were far greater than its imports from the same origin, whereas with respect to the dollar area it was just the other way about. Considerable exports to European countries have taken place on credit. Just before the Marshall Plan came into force they amounted to 10 milliard. The technique of indirect Marshall Aid reduced this amount somewhat, but when E.P.U. became operative foreign credits expanded again.

In the first two fiscal years after the war, notably 1945 and 1946, there was a considerable budgetary disequilibrium and recourse had to be had to the creation of money. But as from 1947, owing to the plentiful revenue as a result of full employment, the budgetary equilibrium was practically re-established.

The elimination of the consequences of the war and the elaboration of an extensive social-security system, which was very costly for the State, had raised ordinary public expenditure to a level of 65 to 70 milliard (as against 10 milliard before the war). Owing to increased expenditure for the national defence, this level later rose to some 80 milliard.

It is not so much the ordinary budget (consumption and transfer expenditure) but rather the extraordinary budget (investment outlays and financial participations) that became a source of difficulties for the Belgian Government.

Military investment outlays inflated the extraordinary budget to such an extent that it became very difficult to finance them, according to the Belgian tradition, by borrowing. It is for this reason that sometimes, as a precautionary measure, the Government

considered it necessary partly to block execution of the extra-ordinary budget.

The very steady demand on the capital market has resulted in the rate of interest for long-term loans being maintained at a high level, too high in the opinion of the Government, for this high rate is a heavy burden on the economy, the more so because, unlike before the war, the country has become one of high wages.

No fundamental changes have taken place in the tax system. The increase of certain rates, dating still from the war period, and the increase of prices and wages, together with an insufficient adaption of assessments, have resulted in the total tax amount of the public sector (State and subordinate authorities) reaching 24 % of the national income. Tax revenue can be divided into about 50 % of direct taxes and 50 % of indirect taxes.

Fiscal policy did not have a pronounced extra-fiscal character, although, by way of exception, the Government has had recourse to fiscal measures to obtain certain economic effects (e.g. export tax).

Owing to the unblocking of the purchasing power, which had been temporarily curtailed, the creation of money due to the foreign credits, and the fact that the Government had to apply to the Natonal Bank for financing the 1945 and 1946 budgets, the fiduciary circulation has increased considerably and has again reached the figure of before the money purge, viz. about 100 milliard francs. However, this does not constitute a threat of inflation, because, considering the situation as regards production and prices, this circulation, just over three times that of before the war, is certainly not unduly high.

It seems that public expenditure can be stabilized at the present level. As receipts continue to be favourably influenced by the expanding national product, the budgetary problem will become less acute.

The great demand from abroad, as well as the high speed at which the Belgian industry in being re-equipped have enabled Belgium to become a country of high wages. Now that international competition makes itself felt again in all its forms, the consolidation of the advantageous position of wages and salaries requires an extra effort on the part of the industrial machine to adapt itself to the situation. The Government attaches particular importance to the creation of a climate and of possibilities tending to stimulate new investments.

PUBLIC FINANCE OF HAWAII: AN OVERVIEW

BY ROBERT M. KAMINS

University of Hawaii, Honolulu

The Territory of Hawaii, geographically and politically on the American frontier, has developed a mature structure of public finance, one basically in the pattern of the mainland states of the American Union, but exhibiting, especially in its tax laws, features not common to other jurisdictions within the United States. It is the purpose of this article briefly to sketch a profile of this financial structure and to comment on its chief or unusual characteristics. [1] Taxation, public debt, and budget procedures of the territorial government will be discussed in that order. Federal tax laws, which apply in full force to Hawaii, are not considered.

Taxation

Hawaii's fiscal system is distinguished by a virtually complete integration of taxing power in the hands of the central, i. e. territorial, government. Neither the Organic Act which has served as a constitution for Hawaii since 1900 nor its statutes provide for the levying of taxes by the counties (or the city-county of Honolulu), sole units of local government in the territory. The few taxes collected by the counties are imposed by territorial law.

As a consequence of this centralization of fiscal authority, all but 5 to 6 per cent of tax revenues in Hawaii, aside from federal levies, are collected by the territorial government. This integrated tax structure is nowhere duplicated among the mainland states, in each of which receipts of local government units are an important part of state-local tax collections.

The fiscal dominance of the territorial government must be taken into consideration when comparing its tax structure with those of mainland states. Notably, in Hawaii the central government collects the property tax (subsequently transferred to the counties), which is the second largest source of territorial tax receipts. On the mainland, where the bulk of property levies are paid directly to local

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[1] Charts of territorial, but not county, taxes have been included in *Tax Systems of the World* (Commerce Clearing House: Chicago), since 1949; for an analysis see Kamins, *The Tax System of Hawaii* (University of Hawaii Press, Honolulu; 1952), on which the first part of this article is generally based. The only materials in print on public debt or budgeting in Hawaii are to be found in the annual reports on Hawaii of the territorial governor to the Secretary of the Interior of the United States and of the latter to the United Nations, both largely limited to statistical data, as are the biennial reports of the territorial treasurer to the Hawaii legislature.

units, they have recently comprised less than 4 per cent of state tax revenues. An increasing number of municipalities and other local governments in the continental United States are authorized to impose taxes on income, sales, admissions, etc., while the four counties of Hawaii are limited to a public utility franchise tax and business license taxes prescribed by territorial law.

While the centralized nature of the territorial tax system in some instances precludes comparison with mainland states, such comparisons which can be made serve to underscore its own distinguishing features. The fact that the Territory of Hawaii depends heavily upon any given tax to finance its operations is more significant than the same statement applied to any of the mainland states, for in the latter the relatively large receipts of counties, municipalities, special districts, and other subdivisions of the state have not been considered. In Hawaii, however, local collections have become an increasingly tiny portion of the overall fiscal system. If the territory's tax structure is unbalanced in any respect, one cannot look to the revenues of its local governments for counterweights.

In the fiscal year ending June 30, 1952, the Territory of Hawaii received approximately $ 76,683,000 in taxes, an amount larger than the 1952 tax revenues of 15 mainland states. [2]) The city-county of Honolulu and the counties of Maui, Kauai, and Hawaii in their fiscal years ending December 31, 1951, collected additional levies of $ 4,677,000, bringing total territorial-county tax realizations (for these non-coinciding fiscal periods) to $ 81,360,000. Territorial tax collections, because of a delay in collecting real property taxes for 1953, declined to $ 71,760,000 in the past fiscal year ,1953, while county tax receipts in 1952 rose to approximately $ 4,820,000. Total tax revenues of both levels of government in Hawaii thus exceeded $ 76,000,000 during the fiscal period, 1952-1953—about triple the level of tax collections in 1940, the last prewar year.

Hawaii's tax structure is widely varied, consisting of 18 territorial and county taxes and a miscellany of county licenses, and contains every major type of levy imposed by the several states. Examination of the tax receipts shown in Table 1 reveals, however, that this diversity is more apparent than real, since three taxes — the general excise, compensation-dividends, and property tax — yield two-thirds of all territorial and county tax receipts. In the past two years, more than 40 per cent of all taxes collected by territorial and county

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2) U. S. Bureau of the Census, *State Tax Collections in 1952*. Hawaii has retained this relative position among the states and territories of the United States since at least 1947.

Table 1

Territorial and County Tax Collections in Hawaii
Fiscal Years Ending 1952 and 1953
(In Thousands of Dollars)

	1952		1953	
	Yield	Per Cent of Total	Yield	Per Cent of Total
TERRITORIAL:				
1. General excise, consumption & compensating	$ 31,163	38.3	$ 31,842	41.6
2. Real property	11,151	13.7	6,119	8.0
3. Compensation-dividends	10,699	13.2	11,147	14.6
4. Motor fuel	8,459	10.4	8,731	11.4
5. Corporate income	4,459	5.5	3,217	4.2
6. Unemployment compensation	2,474	3.0	2,175	2.8
7. Public utility	2,145	2.6	2,276	2.9
8. Liquor	1,934	2.4	1,981	2.6
9. Personal income	1,679	2.1	1,671	2.2
10. Tobacco	1,120	1.4	1,144	1.5
11. Insurance company	839	1.0	850	1.1
12. Inheritance and estate	300	0.4	350	0.5
13. Bank excise	176	0.2	178	0.2
14. Miscellaneous licensesa	80	0.1	75	0.1
15. Taxes levied in former years	5	(b)	6	(b)
Subtotal	$ 76,683c	94.3	$ 71,760c	93.8
COUNTY:				
1. Motor vehicle	$ 3,324	4.1	$ 3,450d	4.3
2. Utility franchise	397	0.5	400d	0.5
3. Other	956	1.2	970d	1.2
Subtotal	$ 4,677e	5.7c	$ 4,820f	6.2
Grand total	$ 81,360	100.0	$ 76,580	100.0

Sources: Department of the Tax Commissioner and office of the Treasurer of Hawaii; county auditors' reports; budget of the City and County of Honolulu.

a. Includes fees charged by treasurer's office for corporation licenses, trademarks, securities, etc., but not the 5 per cent tax on boxing tickets which goes to the Territorial Boxing Commission.
b. Less than 0.05 per cent.
c. Due to rounding, items do not add to subtotal.
d. Partially estimated.
e. Calendar year 1951.
f. Calendar year 1952.

governments were forthcoming under the general excise tax and its auxiliaries, a consumption tax and a compensating tax (applied respectively to products imported directly by consumers and to goods imported through the agency of sales representatives).

Second-ranking tax is the levy on real property, collected by the territory on behalf of its counties. This has recently averaged some 14 or 15 per cent of territorial-county tax revenues (1953, as noted above, being a stunted fiscal year, statistically speaking). Collections of the flat 2 per cent tax on personal compensation and on dividends have been almost as large, comprising about 13 to 14 per cent of all tax receipts.

Hawaii has only one other major source of revenue. This is the tax on motor fuels, which, because of increases in rates and a marked rise in gasoline consumption, has in recent years far outstripped other specific excises in revenue production. It was the source of about one-tenth of all collections in the biennium 1951-53. No other territorial levy, including personal and corporate income taxes, death taxes, unemployment compensation taxes, excise taxes on tobacco, liquor, public utilities and insurance companies — all taxes which bulk large in the revenue systems of the mainland states — yielded more than 5 per cent of combined territorial and county collections.

Among the few county-collected taxes, only motor vehicle weight tax collections have ever amounted to as much as one million dollars during any year. In the past four calendar years motor vehicle taxes constitued approximately 4 per cent of territorial and county tax realizations. As Table 1 shows, all other county levies have supplied less than 2 per cent of the aggregate taxes for both levels of government.

Comparison of Hawaii's Tax System with Mainland Systems

In order to emphasize the distinguishing features of the tax system of the Territory of Hawaii, it is of interest to contrast it with those of the several states. The centralized structure of taxation in Hawaii presents an immediate difficulty when making comparisons with the states of the mainland, each of which grants a much larger area of fiscal authority to its local governments. The chief problem is that the property tax in Hawaii, though wholly allocated to the counties, is administered by the territory and therefore included with the tax revenues of the central government, whereas the mainland all but a small fraction of property tax payments go directly to local governments, even in those jurisdictions where state officials take part in the assessment process.

Table 2

Percentage Distribution of Taxes Collected by the Territory of Hawaii and the Mainland States Fiscal Years Ending 1951 and 1952

Tax	1951		1952	
	Hawaii a	48 States	Hawaii a	48 States
SALES & GROSS RECEIPTS:	*73.5*	*59.0*	*72.4*	*58.2*
1. General sales, use, and gross receipts	51.5	22.4	49.4	22.7
2. Motor fuel	12.0	19.1	13.4	19.0
3. Liquor	3.3	5.2	3.1	4.5
4. Tobacco	1.9	4.8	1.8	4.6
5. Public utility	3.5	2.2	3.4	2.3
6. Insurance company	1.4	2.8	1.3	2.9
7. Other	—	2.3	—	2.3
NET INCOME AND DEATH:	*9.1*	*18.9*	*10.3*	*19.7*
1. Personal income	2.6	9.1	2.7	17.6
2. Corporate	6.1	7.6	7.1	
3. Death and gift	0.4	2.2	0.5	2.1
Compensation-dividends:	17.0	—	16.9	—
LICENSE AND PRIVILEGE:	—	*15.2*	—	*15.0*
1. Motor vehicle and operators	(b)	9.4	(b)	9.4
2. Other	—	5.8	—	5.6
Other:	0.4c	6.9	0.4c	7.1
Total	100.0	100.0	100.0	100.0

Sources: Unpublished reports of the Department of the Tax Commissioner, Territory of Hawaii; *Reports of the Treasurer of Hawaii;* U. S. Bureau of the Census, *State Tax Collections in 1951* and *State Tax Collections in 1952.*

a. Exclusive of property taxes, which are allocated to the counties.
b. Collected by counties.
c. Bank excise, taxes levied in former years, and miscellaneous business taxes.

In contrasting the pattern of tax collections in the Territory of Hawaii to that of the forty-eight states, property tax receipts have been eliminated from territorial realizations in order to avoid this element of incomparability. Territorial tax revenues *after deduction*

of property taxes are compared with those of the forty-eight states for the fiscal years ending in 1951 and 1952 in Table 2. (It is realized that this adjustment is not the only one required for strict consistency, since many state levies are allocated to localities in whole or in part, which is the case of the general excise and motor fuel taxes in Hawaii. However, for the purposes of this study, it does not seem necessary or appropriate to attempt to untangle the snarled skein of state-local fiscal relations in the United States.)

Hawaii's unusually heavy dependence on the general excise — a comprehensive turnover tax which imposes rates ranging from 1 to 2½ per cent to receipts from virtually all business enterprises except (in the past two years) sales to the federal government — is apparent from an examination of Table 2. This dependence is sufficient to make territorial sales and gross receipts taxes in the aggregate appreciably larger than in the nation as a whole despite relatively small collections of specific excises. [3])

Graduated net income and inheritance taxes, conversely, have a decidedly small place in the tax structure of Hawaii. Examination of Table 2 shows that in both 1951 and 1952 the percentage contribution of these progressive taxes to the tax revenues of Hawaii was much smaller than (approximately one-half) the average for all state governments. This contrast was especially marked because the average for the mainland was necessarily reduced by the several states which did not impose personal income taxes. With 30 states levying personal net income taxes in 1952, none reported collections from this source relatively smaller than Hawaii's average of 2.7 per cent of total revenue.

Despite the fact that the corporate income tax rate in Hawaii has been among the highest imposed by state governments — standing at 10 per cent since 1947 — the yield from this tax in the past two years has been a smaller portion of all collections than in most of the states. In part, this is explained by the deductibility of federal income levies, an allowance permitted by only half of the states taxing corporate incomes.

The Territory of Hawaii, like most of the states, has not made its death taxes an important source of revenue, the percentage contribution of this group of levies in the past biennium amounting to approximately 0.5 per cent of all (non-property) tax collections in Hawaii, and to about 2 per cent in the states of the mainland. Gift taxes, currently imposed by a dozen states as well as by the federal government, are not part of Hawaii's tax structure.

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[3]) Motor fuel, liquor, and tobacco tax rates in Hawaii, it should be noted, are not low, but the base of each of these levies is small by national standards, given Hawaii's population, now some 485,000.

Bulking larger in the Hawaii tax system than progressive income taxes is the flat-rate compensation and dividends tax. In recent years this levy has supplied about one-sixth of all (non-property) tax revenues, with the general excise tax forming the major sources of territorial income in Hawaii. As Table 2 reveals, these two levies in 1951 and 1952 yielded about two-thirds of all taxes going to support the territorial government.

This tax is without parallel among the states or other territories of the United States. Without deductions or exemptions, the 2 per cent compensation and dividends tax is collected at the source from the payrolls and dividend distributions of private firms and public employers, since 1953 including the federal government. The effective rate on these forms of income is in all brackets heavier than those imposed under the personal net income tax on realizations of self-employed persons. [4]) To minimize double taxation of wages, salaries and dividends, three-fourths of compensation-dividends tax payments are deductible from the computed personal income tax, in effect relieving most wage, salary, and dividend income from further taxation.

County Taxes in Hawaii

Limited in scope by the Organic Act and laws of the Territory of Hawaii, the tax system of the countries is both simple and uniform. Under the *Revised Laws of Hawaii* the following levies and no others may be collected by the county governments: a motor vehicle tax;public utility franchise tax; license taxes on businesses, bicycles, and dogs. In addition, all property taxes and shares of the general excise and motor fuel taxes are allocated to the counties by the territorial goverment.

The large bulk of county revenues is derived from these centrally collected taxes, as Table 3 indicates.

For the purpose of this overview of the entire tax system it may suffice to describe the county revenue structure as supported in the main by three groups of taxpayers — automobile owners, liquor dealers, and public utility companies. If levies on business firms generally tend to be shifted on to their customers, the local revenue structure thus accentuates the territory's heavy reliance on consumption taxation, the counties adding their ounce to each pound of tax burden placed by Hawaii's government on its main provider — the consumer.

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[4]) Hawaii's net income tax is nominally graduated from 3 to 6 per cent. Generous exemptions and the deduction of federal taxes combine, however, to limit its effective rate to 3 or 3½ per cent for all but a few hundred tax payers. See Kamins, *Tax System of Hawaii, Chapter VI.*

Table 3

Taxes Accruing to the Counties of Hawaii
Calendar Years 1951 and 1952

(In Thousands of Dollars)

Tax	1951		1952c	
County-administered:				
Motor vehicle	$ 3,324		$ 3,450	
Utility franchise	397		400	
Other[a]	956		970	
		$ 4,677		$ 4,820
Territory-administered:				
Real property	$ 10,813		$ 10,810	
General excise[b]	10,515		10,770	
Motor fuel[b]	2,052		2,117	
		$ 23,380		$ 23,697
Total		$ 28,057		$ 28,517

Sources: Reports of county auditors and of territorial tax commissioner.

a. Includes liquor and other business licenses, dog and bicycle tax licenses, and other miscellaneous licenses and fees.
b. Share of territorial revenue.
c. Partially estimated.

Tax Earmarking

Hawaii makes relatively small use of tax earmarking; most revenues go into the general funds of the territorial and county governments, rather than into special funds to support specified public functions. The only earmarking practiced at the territorial level is the allocation of gasoline taxes to the highway and airport funds. Another portion of the gasoline tax is set aside for the road fund of each county, to which motor vehicle weight taxes and public utility franchise taxes are also dedicated. County general funds are supplied by real property tax collections, a share of the general excise, tax, and (some) receipts from county license taxes.

The composite result of this pattern of tax allocation is to make approximately five-sixths of all tax collections in Hawaii general fund realizations, available for any authorized governmental activity; only one-sixth is set aside by law for designated purposes. Extreme use of earmarking, a bane of government finance in many American states, has thus far been avoided.

Public Debt

While the Territory of Hawaii has taxing power equal to that of any of the forty-eight United States, it is closely circumscribed in the incurrance of debt. The Organic Act, the national statute under which Hawaii continues to be governed as a territory of the United States, limits the amount of territorial and county bonds which may be outstanding at any time to 10 per cent and 5 per cent, respectively, of the taxable value of property within the jurisdiction of the borrowing government; it requires that bonds be issued in serial form, with maturities of not more than thirty years; it prohibits their issue for purposes other than construction of public improvements or repelling invasion or insurrection.

Such restrictions and limitations, self-imposed, are common to the constitutions of most states of the American mainland. The Hawaiian Organic Act, however, emphasizes the government's territorial status by requiring approval of all territorial bond issues by the President of the United States. This requirement may have been intended and might have been used by the national government to maintain a close check on the fiscal operations of the Territory. Actually, to the author's knowledge, approval of bond acts passed by the Hawaii legislature has never been withheld in Washington, no more than have territorial tax laws been disapproved by the Congress. In the first decades of government under the Organic Act perhaps it was the fiscal conservatism of the Territory which made it unnecessary to make positive use of this check; by now the attitude of the federal government appears to be that, within wide limits, the incurrance of debt is a matter of only local concern.

Indeed the Territory may have found it easier to increase its debt in recent years than a state would have in a comparable situation. In 1947, the Territory found itself up against its constitutional debt limit in the face of a post-war need for public improvements. No constitutional amendment was required to obtain the necessary legal authority to issue additional bonds, as would have been required by a state constitution, merely approval by the Congress of a joint resolution of the territorial legislature authorizing the issuance of bonds in excess of the debt limit prescribed by the Organic Act. Congressional approval was given as a matter of course, as it was again in 1949 when further borrowing power was requested by Hawaii. Only by 1952, following a reassessment of property throughout the Territory which reflected the postwar appreciation in realty prices, had the aggregate of net taxable values reached a level ten times the outstanding debt, as required by the Organic Act.

The arbitrary nature of a debt limit measured by the assessed

value of property, itself the base of only about one-seventh of all taxes in Hawaii (and that seventh entirely allocated to county budgets) was recognized by the convention which drafted a "hope chest" constitution for Hawaii in 1950, when statehood appeared imminent. Serious consideration was given to adoption of a five-year moving average of aggregate tax collections as the constitutional dbt limit of the state of Hawaii. However, in the end a limit similar to that of the present Organic Act was incorporated in the finance article of the proposed constitution, in accordance with a tacit policy of minimum disturbance to the expectations of the New York bond market, where Hawaii's debt issues are usually floated.

Not subject to the limitations of the Organic Act (or of the proposed constitution) are bonds of improvement districts or revenue bonds issued by two proprietary agencies of the territorial government — the Hawaii Housing Authority and the Hawaiian Aeronautics Commission — and two independent bodies functioning within the City and County of Honolulu — the Board of Water Supply and the Honolulu Redevelopment Agency. In each instance the maximum amount of revenue bonds which can be issued by the agency, against which is pledged its income from sources other than appropriations, is set by territorial statute.

Budgeting

Public budgeting of the Territory of Hawaii is in the mainstream of current practices of the American states both with respect to techniques, accomplishments, and problems. A budget director, appointed by the governor with the consent of the territorial Senate, obtains estimates of each department's projected financial needs a few months after the close of the first year of each biennium. (Like most American states, Hawaii has a fiscal year beginning July 1.) These estimates are aggregated, discussed with the governor and with the department heads concerned, revised — usually downward — and finally printed and presented to the legislature the following February as an executive budget. As in many states, a performance budget, expressing departmental requirements in terms of units of service rendered or similar non-monetary quanta, is being evolved in Hawaii, but with modest speed.

A general appropriation bill and a capital improvement appropriation bill are enacted, first by the lower chamber of the legislature and then by the Senate, and are sent to the governor for his approval. Hawaii's chief executive, unlike the President of the United States and many state governors, may eliminate individual items from appropriation measures, a power frequently exercised in

the Territory. In theory the legislature can override a complete or partial veto, as in the case of any statute, but in practice its own protracted consideration of the finance bills, seldom enacted until just prior to adjournment, effectively eliminates any possibility of exercising this power.

The budget director is immediately reponsible for overseeing budget execution, a task of delicacy as well as importance since an appropriation measure typically is not detailed, requiring the budget officer to read between its lines in interpreting legislative intent. Each department's appropriation for the biennium is divided into eight quarterly allotments, of equal size unless the department head can demonstrate seasonal variations in the output of his agency or other cause for unequal allotments.

In years in which deficits threaten — almost any year since 1948 — Hawaii's budget director may be instructed by the governor to reduce allotments below the sums appropriated. The instrument most commonly employed to effect economies has been moral and political suasion, but the general appropriation acts of 1951 and 1953 have added a more explicit force: they authorized the governor, acting through the budget director, to leave open positions in territorial employment as vacancies occur unless the need for filling the position can be shown by the employing agency; new positions, unless specifically created by legislative enactment, cannot be added to the territorial payroll without special approval of the governor (i.e. budget director).

Behind the formalities of budget allotment is the pull and haul of the multiple tug-of-war in the governor's cabinet between the budget director and department heads. The former, in the author's observation, has increasingly tended to prevail in this contest during the past several years. This tendency, however, may be due to accidental causes, such as an accumulated deficit and the continuance in office of the budget director during a change of administration which swept other cabinet members out of office, rather than being inherent in the institutional arrangements.

Both pre-auditing (examination of expenditures to determine if they are authorized by law and if funds are available, prior to issuance of warrants on the treasury) and post-auditing (later and more thorough examination to determine if expenditures were properly made and for purposes intended by the legislature), are performed in Hawaii by a single agency, the office of the territorial auditor. The anomaly, under a government of divided powers, of so commingling checks intended to be accomplished on behalf of the executive branch and the legislative branch of government, respectively, was recognized by the constitutional convention of 1950 The pro-

posed constitution for the state of Hawaii provides for appointment by the legislature of its own auditor to conduct post-auditing on its behalf, leaving the pre-audit to an officer appointed by the governor.

A more fundamental reform which would be effected by the proposed constitution is the convening of the legislature every year, rathe than every two years as at present, and the substitution of an annual for a biennial budget. This observor concurs with the finding of the convention that the consideration of a biennial budget during a 60-day legislative session is an unnecessarily difficult task and its execution over a period stretching three years from its formulation is unnecessarily hazardous to the well being of Hawaii.

UN APERCU SUR LES FINANCES PUBLIQUES A HAWAII

PAR LE PROFESSEUR ROBERT M. KAMINS

RESUME

Le territoire d'Hawaii a, en vertu de sa charte organique, le même pouvoir en matière fiscale que chacun des 48 Etats composant les Etats-Unis. Le Congrès américain n'a d'ailleurs jamais exercé son droit d'annuler ou de modifier la législation fiscale locale. Un système fiscal très centralisé quant à sa structure s'est développé dans ce territoire. Ce système pourrait paraître très diversifié à en juger d'après la multitude des droits existants mais ceux-ci se ramènent tous en fait à un impôt indirect généralisé (une taxe sur le chiffre d'affaires appliqué à chaque stade successif de la production et de la distribution), à un impôt foncier et à une taxe de 2 % sur les salaires bruts et les dividendes des sociétés.

Si l'on compare l'ensemble de la structure fiscale des 48 Etats américains avec celles d'Hawaii, on constate que cette dernière fait un usage infiniment plus grand que les autres Etats des taxes sur les ventes et des impôts sur les recettes brutes; mais que, par contre, elle ne perçoit que des impôts comparativement faibles sur le revenu net et sur les successions. Environ 95 % du produit de ces impôts sont perçus par l'Administration locale et seulement 15 % de ce produit à une affectation spéciale, le solde alimentant le fonds général du territoire ou celui de ses quatre départements, seules divisions administratives d'Hawaii.

Le montant maximum, que peut atteindre la dette publique du territoire et celle des départements, est fixé par la charte organique respectivement à 10 % et 5 % de la valeur taxable des propriétés foncières. Le caractère arbitraire de ce plafond a été reconnu par le congrès lors de la promulgation des lois autorisant un endettement supplémentaire et par la convention qui a établi, en 1950, un projet de constitution destinée à élever Hawaii au rang d'Etat.

La pratique budgétaire suit les grands principes du droit budgétaire américain. Le Gouverneur, assisté par un bureau du budget, propose les crédits et les recettes à l'organe législatif qui se réunit deux fois l'an. L'exécution du budget s'effectue sous la direction du bereau du budget qui, en répartissant trimestriellement les crédits, examine les prévisions de dépenses des subdivisions territoriales. Il est de plus autorisé à laisser inoccupés les emplois qui deviendraient vacants à l'administration territoriale. Le système du budget fonctionnel ou de performance (performance budget) est généralement considéré comme un but auquel il faudrait parvenir, mais

son application pratique ne se réalise que lentement. Les contrôles à priori et à posteriori sont exercés par une même instance, ce qui constitue une anomalie. Celle-ci serait d'ailleurs supprimée dans la constitution qui est proposée. Un poste de contrôleur, dépendant du pouvoir législatif, serait créé pour exercer ce contrôle à posteriori. La Constitution instituerait également des budgets annuels et des réunions annuelles des organes législatifs.

THE TAX SYSTEM OF THE BYZANTINES

BY JOHN ZERVAS, New-York *)

I. *Social and economic aspects of the Byzantine Empire*

The gradual disappearance of the Roman Empire, brought to an end the slave system of the ancient world.

The feudal system grew gradually and took the place of the slave system. The ancient slave became the serf of the medieval society; so did many of the poor. Their social status was between that of a slave and a free man. This transformation took place during the period of the Byzantine Empire.

The reforms made by Constantine separated the people of the Empire into privileged persons and unprivileged ones. Constantine placed his government and the imperial officials in opposition to the mass of his subjects. The history of the Byzantine Empire is characterised by a remarkable separation of these two classes; the mighty or as the Byzantines call them "οι δυνατοι" and the poor. The small proprietors and the free people gradually disappeared. [1]) The Byzantine Empire was governed most of its time by great feudal families or by army officials. The municipalities, on the other hand, were governed by the "curia" which was an administrative body consisting of the wealthiest landlords of the communities.

The ideas of the Byzantines regarding economics and especially taxes were a continuation of Roman ideas. Byzantine fiscal practices were influenced by the Romans. The ideas of ancient Greeks and especially of the Athenians were entirely forgotten. The preoccupation of the Byzantines was war and good life. They needed enough money for both. They were not concerned, themselves, with creating a just fiscal system for the collection of the necessary funds. The whole Empire and especially Constantinople was the richest area of the world. The public revenue was derived in its greater part from public domains ond public monopolies.

Nevertheless, the revenue from taxes was considerable and the tax burden was very heavy. The abuses of the tax collectors were great. The land tax, the most important tax in that time, was levied by the

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*) The Author is a graduate of Athens University *(Greece)*, as well as of Columbia University (M.A.). — He is currently employed as executive secretary in the Department of Mercantile Marine of the Royal Greek Consulate in New York.

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[1]) Ch. Diehl, „Les grands problèmes de l'histoire Byzantine", Paris, 1943, p. 93.

"curia", that is, by the wealthiest people of the community. Everybody can imagine the great abuses of these tax collectors. [2]) The poor and the small proprietors abandoned their small lands being unable to pay the taxes. Others formed brigades and lived in a state of independence within the Empire. [3])

Many emperors had to take some measures to protect the poor people and sometimes tried to correct the situation. They did not do that from a feeling of justice to the poor. They thought that it was necessary to check the conduct of the great proprietors toward the poor and to prevent them from going to excesses and from endangering the very existence of the system.

II. *Direct taxes and their character*

Some other public resources

The taxes as practiced by the Byzantines were a continuation of the Roman taxes. Diocletian's fiscal system remained unchanged throughout the greater period of the Byzantine Empire. [4]) Constantine did not alter the forms of taxation; he only rendered the whole fiscal system more regular and more rigid. Justinian codified the existing practice without making any change in the system. The reforms made by Leo III did not change anything. The taxes remained basically the same. Some administrative ameliorations were advanced by him.

The taxes were collected by the municipalities, the perfectures, and by the "Aerarium Sacrum" (Public treasury).

The most important of the direct taxes was the so-called "Capitatio or Jugatio [5] terrena".

Writers on Byzantine subjects are at variance about the character of this tax. Some of them say that the "Capitatio or Jugatio terrena" was a land tax. [6] Others argue that there were two distinct taxes:

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[2]) Zosimus in his „history", (B. II, ch.xxxiix, pp. 198, 199) says that „fathers were sometimes compelled to prostitute their daughters in order to pay the taxes."

[3]) G. Finley, „History of Greece", II, p. 53.

[4]) André Piganiol, „L'impôt de capitation sous le bas-empire Romain" Chambéry, 1916, p. 92.

[5]) By „jugum" was meant the landed area which could be cultivated by a man with a plow.

[6]) F. Thibault in his book „Les impôts directs sous le bas-empire Romain", Paris, 1900 p. 2 et seq, argues that from the time of Constantine the „Capitatio or Jugatio terrena" meant exclusively a land tax. This land tax had a threefold character.

a) „Capitatio or Capitatio plebeia or Capitatio humana", a proportional tax on land, measured according to the number of slaves or paroikoi who were used for the cultivation of the land.

the one called "Jugatio" a land tax; the other called "tributum capitis" a personal tax. [7])

It seems that this tax, as developed at the time of the Byzantine Empire, had a threefold, partially personal character; it was imposed, a) on movable and immovable property, b) on businessmen without any landed property, and c) on those without any property at all. [8]

a. A tax proportional in character was imposed upon the total movable and immovable property. The landlord was obliged to declare all of his property: the slaves, the tools and all the other means of exploitation. This declaration was checked by offcial estimates. [9]) The percentage of the tax was fixed by the "edictio" of the emperor.

b) The persons who did not posess a landed property, businessmen and rentiers, were taxed separately. The former paid a licence tax called "Aurum negotiatorium" and later on "Chrysargyron". The meaning of the word businessmen was very broad. It included the bankers and the craftsmen also. [10])

All the taxpayers were listed in the "Matricula" which was under the supervision of a committee of businessmen who assessed the taxes. The classification was made according to the supposed profits of the taxpayyer and it was valid for five years. It might also be fixed according to the kind of profession or according to the capital engaged in the business. [11]) The tax was proportional. J. Godefroi says that the rate was fixed at 2 %. This licence tax was abolished by the emperor Anastasius I in 501 A.D. [12])

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b) „Capitatio animalium", a tax on cattle which was measured according to the number of animals, and

c) „jugatio or jugatio terrena", a tax on land culculated according to the quality of the land or the number of trees thereon. Thibault does not claim the originality of these ideas.

7) Savigny, Rodbertus, as cited by An. Piganiol in his book „L'impôt de capitation, sous le bas-empire Romain" p. 5 et seq.

8) F. Walter; G. Humbert „Essai sur les finances et la comptabilité publique chez les romaines". Paris, 1886.

9) ibid., I p. 486 (quot. 194).

10) Some writers say that the craftsmen were exempted from the tax under a decree of Valentinian II (Thibault, Les impôts directs sous le bas-empire Romain p. 87). I suppose that these authors overlooked or probably they did not know a passage of Zosimus who says that even the poor courtesans were subjected to the tax. (B. II. ch.xxxiix, p. 197, Ed, Ienae)."
"... ουτος (Κωνσταντινος) και την εισφοραν επηγαγε χρυσιου τε και αργυρου κασι τοις απανταχου γης μετιουσι τας εμποριας και τοις εν ταις πολεσι πανωνιαν προτιθεισι, μεχρι και των ευτελεστατων, ουδε δυστυχεις εταιρας εξω ταυτης εασης της εισφορας ..."

11) G. Humber, „Essai sur Les finances", I. 490. quot. 206.

12) E. Gibbon, „The decline and Fall of the Roman Empire," II, p. 25, also K. Paparrigopoulos, „History of the Greek Nation, „V. 3, part I, p. 49,

The rentiers were submitted to a tax measured according to the value of their movable property. The estimate was made by means of a general census.

c) The poor or the persons without any property were taxed at the time of the Roman Empire by a tax called "Capitatio humana or plebeia". It was a capitation tax with an equal amount for each male; the females, however, had to pay only fifty per cent of the amount that males had to pay.

From the time of Diocletian the taxation of the poor who lived in the cities seems to have been abolished. But it was continued for the poor of the agricultural areas. The tax was paid to the Empire treasury by the landlord on whose farms the poor were working and in turn the landlord collected it from his workers. [13])

Other direct taxes were the "aerikon", [14]) the "Kapnikon", [15]) the "chartiatikon". [16]) There existed also some special taxes imposed upon different classes of people. [17])

a) "Aurum coronarium" was imposed on the decurions and it was calculated according to their wealth.

b) The members of the Senate paid a tax called "Follis Senatorius or Gleba Senatoria". This also was calculated according to their wealth. [18])

c) The Senators without wealth paid a capital tax of 7 Solidi, the so-called "Septem Solidi." [19])

Also Zonaras, XIV, 3."..... "... δασμου δε τους υπηκοους πιεζοντος του λεγομενου χρυσαργυρου και τουτον εξεκοψεν...".

13) A. Piganiol in his book „L'impôt de capitation..." p.93 implies that the „haratch" or a capitation tax levied by the Turks upon the Christians in later times, was a continuation of this tax. He probably overlooked the fact that there was nothing in common between the two taxes. In addition, the „haratch" was a capitation tax imposed only upon the Christians and under a progressive scale really amazing for that period. (For the character of „haratch" see W. Miller, „Essays in the Latin Orient", p. 367). A. Andreades, „L'impôt direct en Gréce et son evolution" in the „Revue de Science et de Legislation financieres", 1904, p. 218.

14) „The air tax, levied by Justinian and his successors" E. Sophocles, „Greek Lexikon".

15) „A smoke tax, hearth tax". ibid. Some writers say that the „Kapnikon" replaced the „aerikon".

16) A clerk's fee for the writing of contracts. "Μετρια δε παρεχειν προφασει των υπερ εκαστης διδομενων συμβολων τε και χαρτιων..." Justinian, Novellæ, 8.

17) G. Humbert, „Essai sur les finances". I, p. 369.

18) The Senators were classified into 3 categories according to their wealth and they paid 8 or 4 or 3 ounces of gold to the public treasury. (Kuhn. I, 3, p, 214), as quoted by G. Humbert, I. 492, quot, 22).

19 One pound of gold was equivalent to 72 solidi at the time of Constantine (G. Finley. „History of Greece" Appendix „On Roman and Byzantine Money", I, p. 442).

Both the "Gleba Senatoria" and the "Septem Solidi" were abolished by Justinian. [20])

Besides the aforementioned taxes some others were levied by the municipalities; among them the "aviotikon" and the "parthenophthoria" (jus primae notis) [21]) were the principal ones.

The indirect taxes were more important than the direct ones. Constantinople was the center of an international trade and the tarrifs at first were too high. [22])

With the decline of the Byzantine Empire the height of the tariffs decreased. Finally a "most favored nation" clause was introduced, resulting in the abolition of tariffs.

The most important among the indirect taxes were the "Portoria" under which were included the custom duties, the "octroi", and some port tolls.

The municipalities also collected indirect taxes called "Vectigalia" which included tolls and "octroi" taxes, and some other minor ones.

III. *An evaluation of the Byzantine tax system*

The criteria which must be used for an evaluation of the Byzantine tax system are not the same, and they can not be the same, as those used for an evaluation of a modern tax system.

To evaluate the Byzantine tax system we must use as a frame of reference the conditions of that day and we must try to make an appraisal of that system in reference to those of other countries of that period; the achievements also which were made by the Byzantine Empire in other spheres of human endevour must be taken into account.

Byzantines developed a civilization which was advanced in many spheres. One could expect them to display a similar efficiency in the formulation of a fiscal system.

The survey of the Byzantine taxes which was made in the previous chapter shows the regressive character of the Byzantine fiscal system. Byzantines in the field of public finance showed a weakness.

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[20]) XII, 2, 2, „The Pretor".

[21]) Sp. Lambros, „Peri Parthenophthorias," Periodikon „Neos Ellinomnimon," March 31, 1907.

[22]) They were 12½ % during the first years and were called „octavari vectigal" (G. Humber, „Essai sur les finances...," I, 370, and 494). They decreased later to 10 % and were called „dekatilogoi" (A. Andreades, „Les finances Byzantines," in the „Revue des Sciences and Politiques," 1911, p. 629). These authors fail to give the explanation for this difference between rates; the rates were merely different in different times.

From the time of the Roman conquest of Greece the taxes were paid, in reality, by the poor people. The wealthy who became Roman citizens, by purchasing their Roman citizenship, were exempted from provincial taxes. The poor who were unable to purchase the privilege of Roman citizenship were compelled to bear the whole weight of the public burden.

The most important among the direct taxes, the land tax, was collected by the "curia", which consisted, as we have seen, of the wealthiest of the communities. [23])

The burden fron taxes was excessive. [24]) The taxes during the first period of the Byzantine Empire were of an apportioned character.

The emperor by his "Indictio" fixed the amount which each prefecture had to pay to the "Aerarium Sacrum". The same principle was followed for the fixing of the amount which each province and district had to pay.

The "curia", in the last analysis, defined the amount which each taxpayer had to pay.

The rise of the feudal system, says Lutz, [25]) had as a consequence the decline of the Roman financial administrative organization and the transfer of some of the sovereign's fiscal privileges to the feudal lords.

Under the system of serfdom a transfer of political and financial sovereignty to the landlords took place. This allowed them to regulate the charges which would fall upon the serfs. The Prince-Emperor had to share with the landlords the financial and political sovereignty. The "curia" exercised its privilege to assess the taxes among the different persons with such discrimination against the poor that most of them were compelled to sell their land at a very low price or to abandon it; probably in many cases the taxes exceeded the value of the land. With the abandonment of the land, its proprietor was released from his obligation for the tax because the taxes were connected to the land and not to the person of the

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[23]) Leo III transformed the system and transferred the collection of the land tax to the central government. (G. Finley, „History of Greece", II, 31).

[24]) Zosimus says, (IV, 29), that the taxes were very heavy.
"Βαρυτατος ην ταις απαιτησεσι των εισφορων σφοδροτερου επικειμενος και υπερ το συνηθες ταυτας εισπραττων . . ."
A. Andreades estimates that the tax burden of the Byzantines was approximately double or triple that of our times. (See his article, „Les finances Byzantines", p. 622). This estimation seems to be a little precarious since there are no available figures for the calculation of the tax burden. The measurement of the tax burden constitutes even nowadays a very difficult problem.

[25]) H. Lutz, „Public Finance," New York, 1924, p. 16.

proprietor. [26]) The landlords found this situation very profitable to them. They purchased or annexed the abandoned lands to their own.

Leo III tried to correct this formidable situation by making all the propietors of land responsible for the payment of taxes for the abandoned lands. This system was called "epibole" and later on "allylegion". The system of "epibole" was expanded very soon and covered different villages. The great landlords or "mighty" δυνατοι, as the Byzantines called them, as well as the church, escaped from the "epibole". [27])

In the history of the Byzantine Empire we find few attempts by the Emperors to alleviate the tax burden. Emperor Maurice (582 A.D.) was mentioned as reducing the taxes by one-third. [28]) Some remissions of arrears of taxes (Kouphismoi or aphesis loipadon) are also mentioned by the Byzantine chronicographs.

The principle of equality of all citizens in matters of taxation was not kept and it could not possibly be kept. The Byzantine society, says L. Bouchard, [29]) was based on the distinction of classes and privileges. The army, the officers, the clergy, the senators, the titulars of the court, constituted different privileged classes of a regime full of inequalities.

The idea of justice in taxation matters was unknown to the Byzantines. Although in the thirteenth and fourteenth centuries, traces of progressive taxes are found in the Western World, [30]) the Byzantine Empire did not show any signs of this kind of taxes. We have to say again that progressive taxes grow where democracy and demoncratic ideas are fostered. [31])

The idea of the "ability to pay" which was widespread in the ancient world and which also had many adherents among the Westerners of that time, [32]) was unknown to the Byzantines.

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26) "Τα δημοσια τελη ουκ εισι των προσωπων αλλα των πραγματων." (Leo the Wise in his „Eccloga" XV).

27) A. Andreades, „Les finances Byzantines", p. 626.

28) "Αναφερεται δε και την τριτην μοιραν των φορων συγχωρησαι τοις υπηκοοις τον βασιλεα Μαυρικιον". (Theophylactus Simocatta, „Historiarum libri", VIII, ch. 13, p. 216).

29) L. Bouchard, „Etude sur l'administration des finances de l'empire romain dans les derniers temps de son existence", Paris, 1871, p. 504.

30) E. Seligman, „Progressive Taxation in Theory and Practice," p. 15 et seq.

31) Taxation has always intimate relation to democracy, (S. Ratner, „American Taxation," p. 13).

32) L. Suret, „Theorie de l'impôt progressif," p. 218.

BOOK REVIEWS/CRITIQUES

John F. Due. Provincial Sales Taxes. Toronto: Canadian Tax Foundation. 1953. Pp. xii, 231.

This volume, as Tax Paper No 7 of the Canadian Tax Foundation, presents a detailed picture of the operation of sales taxes in the revenue systems of five Canadian provinces — British Columbia, New Bruswick, Newfoundland, Quebec, and Saskatchewan. According to the author, the study was undertaken "for the purpose of examining these provincial taxes, with attention to their development, structure, administrative features, and enforcement and compliance problems. In part the study is designed to provide greater information about the taxes to business men, tax administrators in other jurisdictions, and others; in part it is designed to evaluate various features of the taxes as a basis for suggesting modifications for improvement, and to assess the appropriate role of the taxes in the overall tax structure." (Preface)

Nine of the eleven chapters in this work are devoted chiefly to a methodical examination of provincials sales taxes as they function today. These chapters contain a vast amount of historical, descriptive, and statistical material. They have been prepared with meticulous care, and they serve as valuable sources of information relating to the development and present use of sales taxes in Canada. In the study as a whole, only limited attention is given to evaluation and analysis. The emphasis is clearly on description.

The peculiar constitutional issues which bear upon the use of sales taxes in Canadian provinces are discussed early in this book. Technically, these taxes "are levied upon the purchaser, since the British North America Act denies the provinces the right to levy indirect taxes." (p. 1) Licensed vendors serve as collection agents and are compensated for their efforts. Many vendors dislike the sales taxes and resent being made tax collectors. The Canadian levies seem to be collected, however, "with a substantial degree of effectiveness." (p. 157)

The revenue yields of these taxees are shown to be important in relation to other sources in the provinces which employ them. These revenues are used mostly for special purposes, particularly for welfare and education. Exemptions include many articles widely consumed by those in the lower income groups. Services rendered independently of sales are not taxed.

In three of the Canadian provinces, sales taxes have been placed in operation within the past six years. Thus experience with them is not extensive. These levies are nonetheless firmly enough established to induce the author to conclude that their continued use "appears

inevitable, and cannot be seriously condemned in the light of the absence, for most provinces, of suitable alternatives." (p. 200)

As a unit in that portion of the study which is devoted principally to description is a chapter (VII) entitled "Shifting, Incidence, and Distribution of Tax Burden." This chapter is only fourteen pages in length, with one page being used for pictures. Because of its brevity, this treatment of such a technical and difficult issue is superficial and incomplete. It is stated that "shifting by the vendor is mandatory;" that "it is illegal for the vendor to absorb the tax;" that the vendor must quote the tax "as a separate item from the price of the product," although "there is nothing to prevent his reducing the price of the product by the amount of the tax and then adding the tax as a separate element." (p. 111) As the subject of shifting and incidence is handled in these few pages, an unrealistic simplicity is attached to it. The reader may bear in mind, however, that the study as a whole is not intended to be a venture in economic analysis, but chiefly a description of provincial sales taxes in operation. The statement relating to shifting are based to a considerable extent upon provisions in the tax laws. As such, they serve a purpose, particularly for business men and tax administrators to whom the study, in large part, is addressed.

One chapter (X) of this study is devoted to an evaluation of the sales taxes as they function today in the Canadian provinces. According to the author, "The evaluation of a tax must always be made in terms of alternatives; if a given amount is to be spent, it must be raised by other taxes if a particular one is not employed." (p. 177) After giving consideration to matters of equity, economic effects, administration, and financial necessity, and after weighing the sales taxes against other potential sources of revenue, especially income levies, the author writes: "The basic argument, therefore, in defence of the provincial sales taxes is simply one of financial necessity; the provinces do not have sufficient alternative tax sources to meet growing demands for various services." (p. 186) These levies are justified primarily because of "the inadequacy of other sources of provincial revenue in meeting growing expenditure demands." (p. 195) It is stated further that "adoption of sales taxes by the provinces is not seriously objectionable; as pointed out, the inequity is mitigated by the low rates and food exemptions, and the adverse economic effects do not appear great ....." (p. 187) The use of sales taxes may be justified as "a part of the price that must be paid to obtain the advantages of the Federal structure of government; the taxes have little to commend them, yet they are not seriously objectionable. The case for them is certainly not sufficiently strong to argue that the other five provinces should

deliberately turn to them, yet if financial necessity dictates, such action seems justifiable." (p. 187)

The support given in this study to sales taxes in the provinces is not based on enthusiasm for consumption levies as such. As a practical matter, there is little choice open to the provinces. The Federal government has dominated the income tax field and has, in addition, levied sales and excise taxes. While this practice has resulted in excessive reliance on sales taxes by the provincial and Federal governments combined, the needed relief is not to be found in the withdrawal of the provinces from the sales tax domain. According to the author, the Federal government should abandon the use of the sales tax and utilize the income tax more effectively.

The final chapter of this volume is in the form of a summary and a set of recommendations. Many changes of a detailed nature are suggested for the improvement of provincial sales taxes, but it is not advised that they be abandoned. An apendix which describes significant features of sales taxes in American states completes the volume.

This study is a painstaking effort to present a picture of provincial sales taxes, to evaluate them, and to recommend changes for improvement. It does not reveal anything new in the way of arguments for and against sales taxes, and the attention given to shifting and incidence contributes nothing to tax theory. On the whole, however, the study is well done. For those wo wish to know about sales taxes in Canadian provinces, this book is recommended reading.

C. WARD MACY,
University of Oregon
U.S.A.

Contributo alla teoria degli effetti economici delle spese pubblicche par Giorgio Stefani, Ed. Padoue Cedam 1953.

M Giorgio Stefani qui vient de publier une „Contribution à la théorie des effets économiques des dépenses publiques" dans la collection des „Studi di Finanza Pubblica" publiée par son maître, le Professeur Morselli, est à la fois un spécialiste de finances publiques et un économiste, et cette rencontre est éminemment fructueuse. Il s'était déjà fait connaitre récemment par certaines études sur les effets redistributifs de la sécurité sociale, qu'il avait eu notamment l'occasion d'examiner en Belgique à la faveur d'un long séjour qu'il fit en ce pays en 1952. [1])

[1]) Effetti redistivibutivi della sicurezza sociale in Belgio 1945—1950 dans Rassegna di statistiche del lavoro 1952 p. 540—611.

L'ouvrage qu'il publie aujourd'hui le classe d'emblée parmi les meilleurs de la jeune école des financiers italiens.

M. Stefani — auquel l'on peut depuis peu ajouter le qualificatif de Professeur — apporte même un élément nouveau dans la science financière italienne, qui renouvelle ses traditions et est propre certainement à lui imprimer un nouvel essor. Il s'agit de l'étude des effets économiques des finances publiques sous l'angle de l'économie macroscopique, qui est assurément l'aspect sous lequel la science économique doit aujourd'hui reconsidérer toutes ses conclusions. En ce sens la manière dont M. Stefani traite le problème des dépenses publiques est très anglo-saxonne, en y ajoutant la finesse italienne. Que l'on parcourt la table des matières: l'ouvrage débute, comme il se doit, par une analyse de la nature économique des dépenses publiques ou plutôt une classification des dépenses publiques d'après leur nature économique, et d'emblée il opte pour une classification qui met les dépenses publiques en relation avec la comptabilité nationale. Ces bases posées, l'auteur porte l'analyse sur les effets de la dépense publique sur la production et puis sur la répartition des revenus et de la richesse pour considérer chaque fois les conséquences statiques et dynamiques de la dépense publique. Les observations ainsi faites conduisent naturellement à considérer les limites naturelles des dépenses publiques, ou plus exactement des dépenses de différente nature. Est-ce trop de dire que M. Stefani suggère que la dépense publique peut féconder l'économie nationale au point d'être elle-même la source de recettes publiques? C'est cependant l'objet de son dernier chapitre que de montrer les relations qui existent entre les dépenses et les recettes publiques. Et ainsi la boucle du financement est bouclée, où l'on ne sait plus si ç'est la recette publique qui commande la dépense ou si ç'est la dépense publique qui permet la recette.

Car ç'est bien la conclusion qui se dégage de l'ouvrage de M. Stefani que la solidarité de tous les éléments de la vie économique, parmi lesquels les finances publiques constituent l'un des plus importants — dans le cadre général de l'économie nationale et du circuit des revenus et des dépenses qui s'écoulent en son sein. Telle est bien en effet la réalité concrète des choses que la théorie vient à point pour éclairer, justifier et conseiller. Un bon ouvrage.

MAURICE MASOIN,
Université de Louvain,
Belgique

„Saggi sul rinnovamento dello studio della scienza delle finanze e del diritto finanziario" (Essais sur le renouveau des études de science financière et du droit financier), publiés dans „Nuova serie

di studi dell'Instituto di Finanza dell'Università e della Camera di Commercio di Pavia" (1 vol. de pp. 437; prix Lit. 2000), Milan, Giuffrè, 1953.

Le professeur *Griziotti,* Directeur de l'Institut des Sciences financières de l'Université de Pavie, a rassemblé dans le présent volume quelques essais importants qui synthétisent la tendance suivie par l'éminent auteur dans ses études financières pendant une quarantaine d'années d'enseignement et d'intense activité scientifique.

On a reproduit dans ce volume, pour commencer, le mémoire paru récemment dans les *Atti dell' Accademia Nazionale dei Lincei:* „Sul rinnovamento degli studi di scienza delle finanze e deritto finanziaro (1908—1953)" qui reprend la pensée de l'auteur touchant les problèmes financiers de caractére théorique.

Le principe fondamental de la construction théorique de Griziotti est de fondre en une synthèse les études financières en coordonnant science financière et droit financier qui devraient s'intégrer réciproquement, principe défendu par l'auteur depuis qu'en 1914, il a inauguré son enseignement universitaire.

La science financière, qui considère le phénomène financier sous l'aspect politique, économique, juridique et technique, est plus vaste que l'économie financière. Celle-ci fait abstraction de l'aspect politique, de la fonction sociale, de la structure juridique et confond ou tout au moins ne distingue pas les phénomènes de droit public propres à la finance par rapport aux phénomènes de droit privé de l'économie. La science financière devrait donc être la synthèse de ces sciences puisque, d'après l'auteur, les principes politiques et juridiques prévalent dans la science des finances, l'économique dans l'activité financière et le technique dans les opérations financières. La différence entre l'économie et la science financière est sensible. Cette dernière, qui doit son indépendance à la connaissance des éléments qui commandent les recettes (le *politique* pour les directives où le critère de la collecte des recettes, l'*économique* pour les fonctions dévolues aux recettes, le *juridique* pour le titre qui justifie l' apport financier, enfin le *technique* pour les opérations qui aboutissent à réaliser les recettes), étudie une activité antérieure à l'économique. Les moyens de l'activité financière diffèrent aussi en qualité et en quantité de ceux de l'activité économique, comme diffère assurément leur méthode d'investigation.

Etant donné la grande importance dans l'étude de l'ordre financier reconnu au fondement juridique de l'impôt — celui-ci constitue même une des bases essentielles de la construction théorique élaborée par Griziotti — le distingué professeur de l'Université de Pavie y trouve le critère rationnel pour distinguer entre finance fiscale et

extrafiscale, finance licite et illicite ou irrationnelle, pour énoncer enfin de nouvelles tendances dans la classification des recettes publiques. Le principe en cause considère et unit entre eux les phénomènes étudiés, soit en science financière, soit en droit financier. Mais avant tout prévaut dans le système de Griziotti l'aspect politique et social du phénomène financier. Il retourne ainsi aux doctrines des classiques italiens qui en matière de finances publiques, ont pris d'abord en considération la situation politique (Machiavel et Guichardin) et, en second lieu, tiennent compte aussi du point de vue moral et juridique.

Une autre notion fondamentale sur laquelle Griziotti fonde en en grande partie son système théorique est celle de la capacité contributive dont il analyse la nature et les applications pratiques.

D'après la conception politique de la finance, d'après la connaissance du droit financier et enfin, d'après les limites entre lesquelles la finance peut satisfaire ses fins sociales et extra-fiscales, on pourra déterminer avec le plus de pénétration et de précision les principes politiques ainsi que les fonctions économiques et sociales des recettes fiscales et extra-fiscales aussi bien rationnelles qu'irrationnelles. Ces conceptions furent amplement développées dans plusieurs articles, publiés la plupart dans la *„Rivista di divitto finanziario e scienza delle finanze"* dirigée par Griziotti et dont certains ont été reproduits dans le volume sous revue.

D'autres exposés d'histoire et de critique des doctrines financières lui confèrent de la variété. Parmi eux citons: *„Le tradizioni secolari e il progresso attuale degli studi di scienza delle finanze e di diritto finanziario in Italia,"* publié en 1943, dont toutefois il n'a été reproduit qu'une partie pour des raisons évidentes de manque de place. Il est vraiment dommage que cet intéressant opuscule, épuisé depuis longtemps, n'ait pu paraître in extenso.

A aussi été reproduit entièrement, l'article *„Vecchi e nuovi indirizzi nelle scienze delle finanze,"* paru dans le 10ème volume des *„Annali di Economia de l'Université Bocconi"* (1935), où l'auteur procède à un vaste examen critique de la tendance économique suivi par l'éminent professeur de l'Université de Rome, De Viti de Marco.

Tout en reconnaissant la valeur remarquable de l'ouvrage, nous croyons cependant qu'on peut formuler certaines réserves sur le principe de la fusion de la science financière avec le droit financier considéré sous l'angle théorique. Car, outre que cette fusion est contraire à la méthode de spécialisation qui domine les sciences principalement analytiques, il y a peu de chance qu'elle s'avère favorable à la construction et au progrès des deux sciences considérées, si différentes en leur structure, compte tenu de la diversité des

méthodes techniques et du contenu, soit de la science économique pure d'une part, soit de la théorie juridique constituant la base du droit financier, d'autre part.

Si la fusion des deux sciences présente sans doute divers avantages pratiques pour l'interprétation des lois qui en découlent, nous ne croyons cependant pas qu'elle soit toujours de nature à favoriser la création d'instruments théoriques de recherche plus adaptés à l'étude analytique des différents aspects des phénomènes étudiés.

Etant donné la grande difficulté de connaître avec exactitude les avantages particuliers que chaque contribuable retire des divers services publics on peut faire quelques réserves aussi quand on pense à la vaste application faite par Griziotti du critère du fondement juridique dernier de l'obligation des citoyens de payer l'impôt — consistant dans les avantages que le contribuable se procure par son appartenance à la collectivité, directement, par le moyen des services publics, ou indirectement, par celui des bénéfices qu'il retire de la vie sociale.

On pourrait encore noter que la notion de capacité contributive, sur laquelle l'auteur fonde en grande partie son système financier, peut difficilement servir de base stable et strictement scientifique à la science des finances, si celle-ci n'est pas dominée par le principe hédonistique et ce moins encore si l'on tient compte du caractère variable à travers le temps, du critère de la capacité contributive qui souvent n'est rien d'autre que l'expression sans cesse variable de la conscience juridico-politique et juridico-sociale.

Mais nonobstant ces quelques réserves, le volume recensé est particulièrement remarquable, non seulement par la science étendue et le vaste domaine de recherches dont il est l'expression évidente, mais aussi par l'harmonieuse construction théorique tenacement batie par Griziotti et son école et défendue avec opiniâtreté.

ATTILIO GARINO CANINA
Université de Turin, Italie

Dr. h.c. Kurt Heinig, Das Budget.

We still have to review volumes II and III. Owing to special circumstances, this had long to be postponed, too long, unfortunately.

Reviewing the whole, it may now justly be concluded that „Das Budget" has become a standard work. For those who are studying the subject of Public Finance it will permanently be a book of reference and an indispensable source of information. Heinig's work should be regarded as an indispensable addition to any scientific library comprising a section of works in the field of Public Finance.

O. BAKKER
Netherlands School of Economics
Rotterdam

DIE VEREDELUNG DER UMSATZSTEUER

(Steuer auf den „Nettoumsatz", "value added", „valeur ajoutée")

VON PROF. Dr G. SCHMÖLDERS,

Universität Köln

Das 19. Jahrhundert glaubte fest an die Möglichkeit, die Verteilung der effektiven Steuerlast durch gesetzliche Bestimmungen darüber regeln zu können, welche Personen, Körperschaften oder Institutionen der Besteuerung unterworfen sein sollten und in welcher Höhe jede von ihnen zur Aufbringung der Finanzbedarfs der öffentlichen Hand beitragen könnte und müsste. Der von der Wirtschaftstheorie entwickelte Begriff des individuellen „Einkommens" schien der geeignete Massstab, jeden am Wirtschaftsleben teilnehmenden Staatsbürger gemäss der Höhe seines „Einkommens" individuell zur Besteuerung heranzuziehen und dabei gleichzeitig der unterschiedlichen Leistungsfähigkeit der einzelnen Einkommensgruppen durch progressive Bemessung der Steuersätze Rechnung zu tragen; der Siegeszug der „Einkommensteuer" spiegelt den sozialen Fortschritt wider, dessen Verwirklichung sich die Wirtschafts- und Finanzpolitik dieser Epoche zur Hauptaufgabe gemacht hatte.

Solange die Einkommensteuer nur die wohlhabenden Schichten und auch diese nur mit massvollen Steuersätzen heranzog, blieb *der fundamentale Konstruktionsfehler dieser Steuer* verborgen, die einen aus der Wirtschaftstheorie abgeleiteten und für diese ebenso notwendigen wie nützlichen. Begriff (das Einkommen) unversehens zum Steuertatbestand und Besteuerungsmassstab machte, obgleich dieser Begriff keineswegs alle Voraussetzungen erfüllte, die er für diesen Zweck hätte mitbringen müssen. Im Gegensatz zu den Steuertatbeständen der Realsteuern (Grundsteuer, Gewerbesteuer) und der primitiveren Personalsteuern (Kopfsteuer, Klassensteuer), die der Steuereinschätzung feste, keiner Beeinflussung zugänglich und schon äusserlich leicht ersichtliche Tatbestände zugrundelegten, wurde mit der Anknüpfung der Steuer an das individuelle Einkommen auf Grund der eigenen, schwer kontrollierbaren Deklaration des Pflichtigen ein Element der Unsicherheit und damit der Ungerechtigkeit in die Besteuerung getragen, das mit der Überspannung der Steuersätze nach dem ersten und zweiten Weltkrieg eklatant zu Tage trat; das „Einkommen" als Resultante aus der gesamten wirtschaftlichen und gesellschaftlichen Position und Betätigung des einzelnen Staatsbürgers is zwar ein hervorragender theoretischer Begriff für die Veranschaulichung seines jährlichen Anteils am gesamten Sozialprodukt, aber ein höchst problematischer Gesetzes-

tatbestand, sobald daran die schwerwiegende Rechtsfolge weitgehender Leistungs- und Abgabepflichten geknüpft werden sollte. So kam es überall zu einer gesetzlichen Konkretisierung und Schematisierung des steuerlichen Einkommensbegriffs, die meist nur das Geldeinkommen und auch dieses nur mittels gewisser Pauschalierungen, Zu- und Abrechnungen, ja sogar Hypothesen und Fiktionen zum Steuertatbestand umformte; nirgends ging die Besteuerung so weit, an diesen zweifelhaften Massstab die *gesamte* Steuerleistung der Staatsbürger anzuknüpfen, wie es doch eigentlich dem Sinn des ökonomischen „Einkommens"begriffs entsprochen hätte, sondern überall blieb die Einkommensteuer nur eine unter mehreren anderen Steuern, deren Belastungswirkung sie als progressives Element zu ergänzen und korrigieren hatte.

In dieser sehr viel bescheideneren Rolle besitzt *die Einkommensteuer zweifellos einen legitimen Platz im* modernen Steuersystem, das die Verteilung der Gemeinlasten mittels einer Vielzahl von Steuern vornimmt, die an die verschiedensten Rechtsvorgänge und Wirtschaftsakte anknüpfen. Die Frage, wieviel davon dem einzelnen Staatsbürger auferlegt wird und ob seine steuerliche Belastung seiner wirtschaftlichen Leistungsfähigkeit entspricht, bleibt bei diesem Steuersytem allerdings zunächts offen; der zuversichtliche Glaube, sie durch gesetzliche Bestimmungen über die Steuerpflicht endgültig und abschliessend regeln zu können, ist durch die Erkenntnis von den Problemen der sogenannten Steuerüberwälzung schwer erschüttert worden. Je mehr sich die Steuertechnik bei der Einkommensteuer auf die Notbehelfe der Schematisierung und Pauschalierung, auf den Steuerabzug „an der Quelle" und auf Hilfskonstruktionen der bilanziellen Gewinnermittlung wie Abschreibungen und Rückstellungen einlassen musste, um die hohe steuerliche Belastung wenigstens einigermassen tragbar zu machen, um so mehr setzte sich auch bei dieser Steuer die Chance ihrer Überwälzung im Preis der Produkte und Dienstleistungen durch, die je nach der Marktsituation teilweise oder voll gelingen oder auch misslingen konnte; die Einkommensteuer der gewerblichen Betriebe wurde zu einer neben anderen Kostenpositionen. Ganz von selbst rückte damit die in der Zwischenzeit niemals ganz zum Schweigen gekommene Frage wieder in den Vordergrund, ob die effektive Lastenverteilung durch die Besteuerung im Ganzen damit noch hinreichend nach der wirtschaftlichen Leistungsfähigkeit der einzelnen Steuerträger ausgerichtet sei oder ob den Verbraucherschichten in den Preisen der Produkte Steuerlasten auferlegt würden, die nach dem Sinn und der Absicht der Steuergesetze von anderen Steuerpflichtigen getragen werden sollten; das Inzidenzproblem wurde zum Prüfstein des Steuersystems.

In diesen Zusammenhang gehört die *Renaissance der Umsatzsteuer,* die nach dem ersten Weltkriege wieder von Deutschland aus über Frankreich, Belgien und Italien bis in die Schweiz, nach Grossbritannien und zeitweise auch nach Skandinavien vordrang und die sich heute fast überall anschickt, neben den Einkommensteuern oder an ihrer Stelle zur tragenden Säule der Steuersysteme zu werden. Der Tatbestand, an den diese Steuer auknüpft, ist der Umsatz von Waren oder Dienstleistungen gegen Entgelt; die Überwälzung der Steuer im Preis der Waren oder Dienstleistungen wird vorausgesetzt, zumal die Steuer in der Regel erst an Hand der vereinnahmten Entgelte berechnet wird. Auf diese Weise gelingt es, ebenso wie bei den eigentlichen Verbrauchsteuern, die Steuer fast unmerklich im Preis der Waren und Dienstleistungen dem Käufer aufzuerlegen; da die Steuer in Prozent des Verkaufspreises berechnet wird, ist bei hochwertigen Verbrauchsgütern, wie sie die oberen Einkommens-schichten zu konsumieren pflegen, bereits eine gewisse Progression in die Steuerbelastung eingebaut, die durch Steuerbefreiungen für Grundnahrungsmittel und erhöhte Sätze für Waren des gehobenen Verbrauchs noch verstärkt werden kann.

Vor der Einkommensteuer hat die Umsatzsteuer voraus, dass die jeder erhöhten Steuerbelastung entgegenwirkenden Steuerwiderstände durch die *Unmerklichkeit* der Steuer, ihre Aufsplitterung in fast unendlich kleine Teilbeträge bei jedem Einkaufsakt, auf ein Minimum reduziert werden; das Prinzip der Einbehaltung „an der Quelle" ist bei ihr nicht nur für einzelne Gruppen von Steuerpflichtigen, sondern für die Gesamtheit aller Steuerträger in idealer Weise verwirklicht. Fiskalisch empfielt sich eben aus diesem Grunde die Umsatzsteuer durch ihre beachtliche *Ergiebigkeit;* während Spezialakzisen auf Verbrauchsgüter und Genussmittel bei verstärkter Anspannung der Steuersätze zu Steuerausweichung und Ersatzmittelverbrauch zu führen pflegen, ist eine solche Wirkung bei der Umsatzsteuer, die ja grundsätzlich alle Güter und Leistungen erfasst, praktisch mehr oder weniger ausgeschlossen.

Nachteile der Umsatzsteuer sind die Gefahr ihrer unsozialen Belastungswirkung, der jedoch wie erwähnt, durch entsprechende Befreiungs- und Differenzierungsbestimmungen weitgehend entgegengewirkt werden kann, und die Beeinflussung der Wettbewerbsbedingungen der einzelnen Anbieter untereinander, wenn die Umsätze auf jeder Stufe des Produktions- und Absatzprozesses von neuem in voller Höhe besteuert werden, so dass die gleiche Ware je nach der Zahl der durchlaufenen Stufen mehrfach der Umsatzsteuer unterworfen wird (Kumulativ- oder Lawinensteuer). Dies gilt insbesondere dann, wenn die Steuersätze eine gewisse Höhe erreicht haben, so dass es lohnend wird, aus Steuersparnis-

gründen mehrere Produktions- und Absatzstufen in einer Hand zusammenzufassen, damit möglichtst nur ein einziger steuerpflichtiger Umsatzakt übrig bleibt (konzentrationsfördernde Wirkung der Umsatzsteuer); um diese wettbewerbsstörende Wirkung der Umsatzsteuer auszugleichen, haben sich die verschiedensten, ausnahmslos höchst unbefriedigenden Sonderregelungen herausgebildet, von denen hier nur die Zusatzsteuern für vertikal integrierte Betriebe, das Grosshandelsprivileg und die komplizierte Rechtsfigur der sogenannten „Organschaft" erwähnt werden sollen.

Dass diese zuletzt erwähnten Nachteile, die Wettbewerbsverfälschung und Konzentrationsbegünstigung, nicht der Umsatzsteuer als solcher anhaften, sondern nur ihrer primitiven Form als Kumulativ- oder Lawinensteuer, ist in Deutschland seit mehr als 30 Jahren bekannt. Schon im Jahre 1919 hatte F. v. Siemens eine *„Veredelung" der Umsatzsteuer* in dem Sinne vorgeschlagen, dass nicht der ganze Umsatz jeder einzelnen Stufe des Produktions- und Absatzprozesses, sondern nur der auf jeder Stufe geschaffene *Wertzuwachs* besteuert werden sollte. Dadurch wird es möglich, die steuerliche Belastung der Waren von der Zahl der durchlaufenen Stufen völlig unabhängig zu machen, da die Besteuerung den Wertschöpfungsvorgang durch alle Produktions- und Absatzstufen hindurch begleitet und jeden Teilbetrag dieser Wertschöpfung mit dem gleichen Proportionalsatz besteuert, mit dem die Ware im Endergebnis belastet werden soll; die Addition aller Teilsteuerbeträge ergibt einen Gesamtsteuerbetrag, der dem Steuersatz vom Endwert der Ware entspricht. Nimmt man als einfachstes Beispiel einen Produktions- und Absatzweg von fünf Stufen an, in dessen Verlauf die Ware auf jeder Stufe ein Fünftel an Wert gewinnt, bis sie ihren vollen Ladenpreis erreicht hat, so würde eine zehnprozentige Umsatzsteuer schematisch in fünf Teilbeträgen anfallen:

I.	Stufe	Warenwert	20,	Umsatzsteuer	10 %	= 2
II.	Stufe	Wertzuwachs	20,	Umsatzsteuer	10 %	= 2
III.	Stufe	Wertzuwachs	20,	Umsatzsteuer	10 %	= 2
IV.	Stufe	Wertzuwachs	20,	Umsatzsteuer	10 %	= 2
V.	Stufe	Wertzuwachs	20,	Umsatzsteuer	10 %	= 2
Insgesamt		Ladenpreis	100,	Umsatzsteuer	10 %	= 10

Mit einer derartigen „veredelten" Umsatzsteuer wäre gegenüber der heutigen kumulativen Allphasensteuer ein Doppeltes erreicht. Unter Aufrechterhaltung der Wirkungsbreite, die jeder Allphasensteuer innewohnt, und der Unmerklichkeit, die mit den verhältnismässig geringfügigen Steuerbeträgen jeder einzelnen Stufe und mit der verdeckten Inrechnungstellung der Steuer verbunden ist, wäre die *Wettbewerbsneutralität* der Umsatzsteuer und damit ihre Über-

wälzungschance entscheidend verbessert und zugleich ihre heutige Kumulativwirkung beseitigt. Einerlei, ob die Ware drei oder zehn Produktions- und Handelsstufen durchläuft, bis sie den Verbraucher erreicht, wird sie mit dem gleichen Steuersatz belastet, der nur je nachdem in drei oder zehn einzelnen Teilbeträgen entrichtet wird. Die vertikale Konzentration, die Zusammenfassung mehrerer Produktions- und Absatzstufen in einer Hand, gewährt im Wettbewerb keinerlei Kostenvorsprung mehr.

Die Zahl und Reihenfolge der Produktions- und Absatzstufen bewirkt auch nicht mehr, wie dies die heutige Kumulativsteuer tut, eine grössere oder geringere Steuerbelastung der Ware. Ob Produktion, Grosshandel oder Einzelhandel, ob reiner Handel oder Handel nebst Be- oder Verarbeitung, jede Stufe des Wertschöpfungsprozesses zahlt den gleichen Prozentsatz von ihrem Wertschöpfungsbetrag, ohne dass, wie heute, Steuer von der Steuer erhoben wird. Je weniger betriebsindividuell die Steuer ausgestaltet und je enger sie dem stufenförmigen Wertschöpfungsprozess angepasst ist, mit dessen Ablauf sich der Verbraucherpreis letztlich ergibt, um so grösser ist die Wahrscheinlichkeit, dass die Überwälzung auf den Verbraucher reibungslos und vollständig gelingt.

Die praktische Verwirklichung dieser Umsatzsteuer vom „Mehrwert" (valeur ajoutée, value added) gelingt mit einigen sich aus der Sache ergebenden Einschränkungen ihres Grundprinzips am einfachsten durch den Übergang zum *„Netto-Umsatz" als Bemessungsgrundlage* an Stelle des heutigen Brutto-Umsatzes. Von der Summe der vereinnahmten Entgelte, die heute als „Umsatz" der Besteuerung unterworfen werden, können ohne besondere Schwierigkeiten diejenigen „verausgabten Entgelte" abgesetzt werden, die der Umsatzsteuer auf der Vorstufe bereits unterlegen haben; die Umsatzsteuer wird nunmehr, mit einem nominell entsprechend erhöhten Satz, von dem so gewonnenen Netto-Umsatz berechnet. Ob die „vereinnahmten Entgelte" als Berechnungsgrundlage beibehalten und davon die erwähnten „verausgabten Entgelte" abgesetzt, oder ob die in Einkauf und Verkauf „vereinbarten" Entgelte der Berechnung des Netto-Umsatzes zugrunde gelegt werden sollen, ist für das Grundprinzip der Netto-Umsatz-Steuer unwesentlich. Die Buchführungspraxis spricht für das zuletzt erwähnte Verfahren, da Eingangsfakturen und Verkäufe ohnehin in jeder kaufmännischen Buchführung kontenmässig festgehalten werden, während die Geldein- und -ausgänge erst in einem besonderen Arbeitsgang für die Besteuerung aufgegliedert werden müssten.

Eine andere Frage ist es, ob der „Mehrwert", den die Steuer erfassen will, für die Zwecke der Steuerschuldermittlung *unmittelbar* durch Abzug der Vorumsätze vom Bruttoumsatz berechnet oder ob

statt dessen ein *mittelbares Verfahren* eingeschlagen werden soll, das sich bei der französischen Produktionssteuer seit 1949 bewährt hat. Hier wird zunächst die Steuerschuld vom Bruttoumsatz ermittelt und von diesem Betrage die Summe derjenigen Umsatzsteuerbeträge abgezogen, die auf den Einkaufsrechnungen offen ausgewiesen, also beim Einkauf bereits bezahlt worden sind. Die Umsatzsteuer erfasst dadurch auf jeder Stufe lediglich den „Mehrwert", der bei ihr entsteht, so dass die Kumulativwirkung, auch Lawinenwirkung genannt, auch auf diesem Wege gewissermassen indirekt vermieden wird. Diese Form der Nettoumsatzsteuer erfordert jedoch bis zum Einzelhandel herunter den offenen Ausweis der Umsatzsteuer auf den Rechnungen; der psychologisch unschätzbare Vorzug der Unmerklichkeit der Steuer geht dadurch für alle Stufen mit Ausnahme der letzten, nämlich des Verkaufs an den privaten Konsumenten, verloren. Für die Verwaltung und Steuerkontrolle bietet das französische Verfahren andererseits gewisse Vorzüge; auch wird dadurch die Differenzierung der Steuersätze erleichtert, ein Problem, auf das in unserem Zusammenhang noch zurückzukommen sein wird.

Die Besteuerung des Nettoumsatzes an Stelle der kumulativen Bruttoumsatzsteuer wurde, wie erwähnt, erstmalig 1919 von F. v. Siemens als der beste Weg für eine „Veredelung" der damals noch mit 1 % erhobenen Umsatzsteuer empfohlen. Bei der Beratungen über die Reform der inzwischen auf 1,5 % erhöhten Steuer im Vorläufigen Reichswirtschaftsrat wurde das Grundprinzip dieser „veredelten Umsatzsteuer" durchaus anerkannt. Es könne gar keinem Zweifel unterliegen, dass „durch den Siemenschen Vorschlag erreicht wird, dass jedes Produkt in jedem Stadium des Zirkulationsprozesses mit dem gleichen Steuersatz, wie z.B. 10 % seines Wertes, belastet ist. Durch diese gleichmässige Belastung, die vom Produzenten bis zum Kleinhändler durchgeführt wird, würden die rohen und schädlichen Wirkungen der allgemeinen Umsatzsteuer vermieden... Die veredelte Umsatzsteuer würde ferner die Gefahren beseitigen, die aus der allgemeinen Umsatzsteuer für den Handel entstehen und die noch grösser werden, wenn der Satz der allgemeinen Umsatzsteuer erhöht wird." [1])

Es kam jedoch schliesslich nicht zur Einführung der Siemenschen Nettoumsatzsteuer, zumal in den Inflationsjahren das Aufkommen aus der Umsatzsteuer den einzigen Rückhalt der Reichsfinanzen bildete; nach der Rückkehr zu einer stabilen Währung siegte das Argument des Reichskanzlers Luther, eine *kräftige Senkung* der

[1]) Denkschrift des Vorl. RWR, Nr. 200, S. 1, 1920/21, vgl. weiter Sten. Ber. des RWR 1921, S. 1092 ff., Drucks. des RT 1920/21, Nr. 2866, S. 15, RT 1920/21, Drucks. Nr. 2866, S. 8 und Denkschrift Drucks. 1924, Nr. 588, S. 10.

Umsatzsteuer sei ihre beste „Veredelung". Der Steuersatz, der zeitweise 2,5 % betragen hatte, wurde in racher Folge auf 1,5 %, 1 % und 0,75 % abgebaut, so dass die Reformdebatte über die Umsatzsteuer zum Schweigen kam. Inzwischen ist der Steuersatz jedoch mit 4 % bei dem Vier- und Fünffachen seiner damaligen Höhe angelangt, so dass eine Rückbesinnung auf die grundsätzlichen Erwägungen der Umsatzsteuerreform höchst angebracht erscheint.

Das Problem, das bei der praktischen Verwirklichung der Nettoumsatzsteuer in allen ihren Formen auftaucht und eine konkrete Lösung erheischt, ist *die Bestimmung des „Mehrwertes"*, von dem in Zukunft an Stelle des Bruttoumsatzes die Steuer erhoben werden soll. Da von der Entscheidung hierüber die Höhe der Steuerbeträge abhängt, die auf den einzelnen Stufen an die Finanzkasse gezahlt und im Überwälzungsprozess von den Abnehmern wieder hereingeholt werden müssen, ist es verständlich, dass sich an dieser Stelle Argumente um die höhere oder geringere „Steuerbelastung" bestimmter Wirtschaftszweige oder Betriebsformen einschleichen, obwohl eine echte „Belastung" der Inkassostellen, bei denen der Warendurchlauf steuertechnisch erfasst wird, im Falle des Gelingens der Überwälzung gar nicht vorliegt. Nichtsdestoweniger taucht in diesem Zusammenhang fast unvermeidlich sogleich das Argument von der „ungerechtfertigten Mehrbelastung der arbeitsintensiven gegenüber der kapitalintensiven Unternehmungen" auf, das zwar auf einem Fehlschluss beruht, seine politische Durchschlagskraft jedoch in den Beratungen des Vorläufigen Reichswirtschaftsrates über die Umsatzsteuerreform und in der daraus hervorgegangenen Amtlichen Denkschrift von 1924 unmissverständlich und eindrucksvoll bewiesen hat. Es empfiehlt sich daher, sogleich auf diese Zusammenhänge einzugehen, um dem Einwand zu begegnen, dass die Nettoumsatzsteuer die arbeitsintensiven Betriebe besonders „belaste".

Die Bestimmung des steuerpflichtigen „Mehrwerts" ist bei der Nettoumsatzsteuer grundsätzlich in zweifacher Form möglich, entweder durch Aufzählung der steuerpflichtigen Elemente des Verkaufpreises oder durch Aufzählung der Posten, die vom Bruttoumsatz zur Ermittlung des Nettoumsatses abgesetzt werden dürfen. Obgleich praktisch nur die zweite Methode in Betracht kommt, die zugleich eine steuertechnisch möglichst einfach kontrollierbare Durchführung der Nettoumsatzsteuer gewährleistet, soll zur Veranschaulichung hier zunächst einmal die erste Verfahrensweise angedeutet werden. Zum Einkaufspreis einer Ware oder der Roh-, Hilfs- und Betriebsstoffe einer beliebigen Produktion treten im allgemeinen folgende Positionen hinzu, aus deren Addition mit dem Einkaufspreis sich schliesslich der Verkaufspreis ergibt:

1. Löhne und Gehälter
2. Soziale Lasten
3. Abscheibungen auf Anlagen
4. Steuern (ohne Umsatzsteuer)
5. Zinsen, Mieten und sonstige Gemeinkosten
6. Gewinnzuschlag
7. Umsatzsteuer

Die auf diese Positionen entfallenden Beträge sind die wesentlichsten Elemente der eigenen „Wertschöpfung" auf der Stufe des Produktions- und Absatzablaufs, um deren Steueerberechnung es sich handelt. Geht man davon aus, dass die Einkaufspreise der Waren oder Rohstoffe bereits beim Lieferanten der Umsatzsteuer unterlegen haben, so darf auf jeder Stufe, wenn eine kumulative Belastung der Waren vermieden werden soll, nur *die Differenz zwischen diesen Einkaufspreisen und den eigenen Verkaufserlösen* der Stufe zur Umsatzsteuer herangezogen werden. Bei arbeitsintensiven Unternehmungen liegt das Schwergewicht auf den Positionen 1 und 2, bei kapitalintensiven stärker auf 3, 4 und 5. Von einer „Mehrbelastung" der arbeitsintensiven Unternehmungen kann also insoweit auch äusserlich betrachtet gar keine Rede sein. Dieser Eindruck entsteht vielmehr nur dadurch, dass die Nettoumsatzsteuer mit der heutigen Kumulativsteuer verglichen wird, bei der der gesamte Bruttoumsatz einschliesslich der Anteile für diejenigen Aufwendungen der Umsatzsteuer unterworfen sind, die für den Einkauf der Waren bzw. der benötigten Roh-, Hilfs- und Betriebsstoffe an die Lieferanten gezahlt worden sind. Mit Ausnahme der Urproduktion und der Dienstleistungsgewerbe, für die gegebenenfalls Sonderregelungen getroffen bzw. Befreiungen eingeführt werden müssten, machen diese Aufwendungen einen mehr oder weniger beträchtlichen, im Handel den überragenden Anteil an der Kalkulation aus, neben dem die Lohnsumme mit den sozialen Lasten meist stärker in den Hintergrund tritt. Darauf ist es zurückzuführen, dass der Katalog der kalkulatorischen Posten bei Auslassung der Einkaufs- bzw. Rohstoffpreise das Gewicht der Löhne und Gehälter sowie der sozialen Aufwendungen grösser erscheinen lässt, so dass optisch der Eindruck entstehen kann, als „belaste" die Nettoumsatzsteuer die arbeitsintensiven Unternehmungen stärker als die kapitalintensiven. Das Gegenteil ist, wie sich noch zeigen wird, bei den praktisch heute nur in Frage kommenden Formen der Nettoumsatzsteuer der Fall.

Bei der französischen Produktionsteuer geschieht die Bestimmung des „valeur ajoutée" in dem zweiten der oben angegebenen Verfahren, nämlich durch Abzug der „Vorumsätze" vom Bruttoumsatz bzw. durch Anrechnung der auf den Einkaufsrechnungen aus-

gewiesenen Umsatzsteuerbeträge von der zunächst vom Bruttoumsatz errechneten Steuerschuld. Die Frage, welche Einkaufsrechnungen zu diesem Abzug zugelassen werden, ist das Kernproblem der Umsatzsteuerreform, um die gegenwärtig gerade auch in Frankreich eine lebhafte Auseinandersetzung in Gang gekommen ist. [2]) Da die Produktionsteuer auf die fabrikatorischen Stufen des Erzeugungs- und Verteilungsablaufs beschränkt ist, während der Handel lediglich der kumulativen „Transaktionsteuer" von 1 % unterliegt, kommt es für die scheinbare „Belastungs"wirkung der Produktionssteuer entscheidend auf diese Abzugsmöglichkeiten an.

Die französische Lösung ist in diesem Punkte gewissermassen salomonisch. Um sicherzustellen, dass effektiv nur der Durchlauf der Waren als solcher besteuert wird, ohne das die Umsatzsteuer die individuellen Verhältnisse der dabei beteiligten Unternehmungen irgendwie berücksichtigt, sind zum Abzug nur die Vorsteuern auf solche Lieferungen zugelassen, die physisch in das eigene Erzeugnis des Herstellers eingehen, im wesentlichen also die Roh- und Hifsstoffe, die für seinen Produktionsgang benötigt werden. Schon die Kategorie der „Betriebsstoffe" gehört dazu nur kraft einer besonderen Hypothese: Rohstoffe, die während des Produktionsprozesses zugrunde gehen (z.B. Kohle) oder bereits durch einmalige Verwendung ihre wesentlichen Eigenschaften verlieren (z.B. Schwefelsäure), gelten ebenfalls als physisch in das neue Erzeugnis eingegangen, gehören also zu den Lieferungen, die bei der Berechnung der Umsatzsteuer als bereits versteuerte Vorumsätze abgesetzt bzw. angerechnet werden können. Nicht abzugfäig sind jedoch Aufwendungen für solche Stoffe und Erzeugnisse, die nicht physisch Gegenstand des einzelnen Fabrikationsprozesses und späteren Absatzes sind, insbesondere Investitionen, wie Gebäude und Maschinen, die zwar ebenfalls pro rata ihrer Abnützung in die eigenen Erzeugnisse eingehen, deren Anschaffung jedoch nicht zur Weiterveräusserung, sondern zum eigenen Gebrauch des steuerpflichtigen Unternehmens erfolgt. Eine Mittelstellung zwischen den abzugsfähigen und nichtabzugsfähigen Aufwendungen nehmen die Aufwendungen für „kurzlebige Wirtschaftsgüter" [3]) ein, die sich zwar nicht in einem Arbeitsgang, aber innerhalb kurzer Zeit aufbrauchen, wie Filtertücher, Elektroden für Elektroöfen und feuerfestes Material. Die Aufwendungen für solche Gegenstände dürfen bei der Ermittlung des Nettoumsatzes *zur Hälfte abgesetzt* werden.

Diese salomonische Grenzziehung zwischen „Rohstoffen" und

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[2]) Lauré, M.: La taxe sur la valeur ajoutée, Préface de M. Henry Laufenburger, Paris 1952.

[3]) „Produits de consommation rapide" im Gegensatz zu „outillage" und „investissements"

„Investitionen" bedeutet, auf das oben wiedergegebene Kalkulationsschema angewandt, dass die Position 3 (Abschreibungen auf Anlagen) voll steuerpflichtig bleibt, obgleich in den Anschaffungs- und Herstellungskosten der Anlagegegenstände ebenfalls Umsatzsteuerbeträge der Vorstufen enthalten sind. Insoweit bleibt also auch in der französischen Produktionssteuer die *Kumulativwirkung der Umsatzsteuer erhalten*, die hinsichtlich des eigentlichen Warendurchlaufs mittels der erwähnten Abzugsposten beseitigt ist. Hieraus ergibt sich, dass das System der Nettoumsatzsteuer in der Form, wie sie in der französischen Produktionssteuer verwirklicht ist, nicht die arbeitsintensiven, sondern gerade die kapitalintensiven Wirtschaftszweige besonders „belastet", da die Ausschaltung der Kumulativwirkung bei ihnen notwendigerweise unvollständig bleibt. Ausgaben für Maschinen und andere Anlagen, aber auch für Bürobedarf und sonstige Gemeinkosten, bleiben kumulativ mit der Umsatzsteuer der Vorstufen belastet, während die Arbeitslöhne keine Vorbelastung mit Umsatzsteuer zu tragen haben.

Dieser Rechtszustand wird in der gegenwärtig entbrannten Reformdebatte über die französische Umsatzsteuer scharf angegriffen. Im Interesse der industriellen Rationalisierung und einer besseren Wettbewerbsfähigkeit der französischen Industrie auf dem Weltmarkt wird die *Abschaffung der Kumulativbesteuerung für Investitionen* und Gemeinkosten gefordert, da es sich dabei in erster Linie um die „Faktoren erhöhter Productivität" handele. Maschinen und Gebäude, Aufwendungen für Forschung, Zinsen für Kredite, Transportkosten und Ausgaben für Bürorationalisierung sollen, ebenso wie die Roh-, Hilfs- und Betriebsstoffe der Fabrikation, von der Kumulativwirkung der Umsatzsteuer befreit und zum Abzug zugelassen werden, da auch diese Aufwendungen zwar nicht „physisch", aber doch wirtschaftlich in den Wert der eigenen Erzugnisse eingehen. [4]) Mit der Durchführung dieser Reform wäre auch die Gleichstellung der kapitalintensiven mit der arbeitsintensiven Produktionsweise hinsichtlich ihrer sogenannten Steuer„belastung" verwirklicht, an der es in der französischen Produktionssteuer bisher zum Nachteil der erstgenannten noch fehlt. Bezeichnend für das logische Denken der französischen Steuerpolitiker ist es immerhin, dass diese bei uns immer wieder auftauchende, grundsätzlich von falschen Voraussetzungen ausgehende Fragestellung in der Diskussion der Steuerreform in Frankreich überhaupt keine Rolle spielt.

Das französische Beispiel veranschaulicht die Probleme, die bei

[4]) Lauré, M.: a.a.O., S. 60 ff., 83 ff. Zur Zeit wird in parlamentarischen Kreisen auch auf diesem Gebiet eine „salomonische" Mittellösung diskutiert, nach der diese Aufwendungen nicht voll, aber doch zur Hälfte abzugsfähig sein sollen; bei den Erzeugnissen, die der Montanunion unterliegen, soll sich der Abzug dagegen auf 75 % erhöhen.

jeder nichtkumulativen Allphasensteuer entstehen und nach einer klaren Lösung verlangen. Geht man von der Nettoumsatzsteuer in ihrer einfachsten Form aus, so ergibt sich alsbald die Frage nach der *Abgrenzung des Kreises der zum Abzug vom Bruttoumsatz zuzulassenden bereits versteuerten Vorumsätze*. Bei einer Beschränkung des Abzugs lediglich auf die „physisch" in den Warendurchlauf eintretenden Roh-, Hilfs- und Betriebsstoffe bleibt die Kumulativwirkung für einen nicht geringen Teil der Produktionskosten der Industrie bestehen, während sie im Handel weitgehend beseitigt wird. Bei Zulassung sämtlicher Anschaffungsaufwendungen zum Abzug würde andererseits zwar die Kumulativwirkung vollständig beseitigt, die Besteuerungsbasis andererseits ausserordentlich geschmälert, so dass der nominelle Steuersatz sehr hoch sein müsste. Je höher der Steuersatz ist, zu einem um so auffallenderen Kalkutationselement wird er, um so starrer und unnachgiebiger wird die Preistellung im Konjunkturverlauf, und so grösser wird die Gefahr, dass die Überwälzung nicht vollständig gelingt.

Schon aus psychologischen Erwägungen empfiehlt es sich daher, auf diese letzte Konsequenz der Reform zu verzichten und *die Abzugsmöglichkeit lediglich auf Roh-, Hilfs- und Betriebsstoffe* sowie auf die *Abschreibungsbeträge* zu beschränken, in denen der pro rata der Abnutzung eintretende Verschleiss der Anlagen zum Ausdruck kommt. Für diese Kompromisslösung spricht auch die Erwägung, dass eine Gewährung der vollen Abzugsfähigkeit für alle Anschaffungen einschl. Gebäude, Maschinen und Büroinventar, Kraftfahrzeuge, Werbedrucksachen usw. die Umsatzsteuer einer Art Bruttoeinkommensteuer annähern würde, fur die im deutschen Steuersystem mit seinem Schwergewicht der Ertragsteuern kein Raum ist. Die erwähnten französischen Reformvorschläge werden vom deutschen Standpunkt aus erst voll verständlich, wenn man berücksichtigt, dass das Gewicht der Ertragsteuern in Frankreich relativ weit hinter den deutschen Steuerbelastungen zurückbleibt. [5]) Wird die Abzugsfähigkeit der Investitionsaufwendungen in der vorgeschlagenen Weise auf die jährlichen Abschreibungsquoten beschränkt, während Gemeinkostenaufwendungen grundsätzlich von der Abzugsfähigkeit gänzlich ausgeschlossen werden, so ist auch den fiskalischen Bedenken Rechnung getragen, die in der Befürchtung begründet sind, dass in Wiederaufbau- und Investitionsperioden die Höhe der Abzugsposten bei kapitalkräftigen Unternehmen das Aufkommen aus der Umsatzsteuer gefähren oder doch wesentlich beeinträchtigen könnte. Die Versagung der Ab-

[5]) Esser - Sturm: Die heutige Steuerbelastung der gewerblichen Wirtschaft, Heft 26 der Schriftenreihe des Instituts „Finanzen und Steuern", Bonn 1952.

zugsfähigkeit für alle Gemeinkosten und für höhere Investitionsaufwendungen, als sie mit den steuerlich zugelassenen Absetzungen für Abnutzungen gedeckt sind, wirkt gleichzeitig im Sinne einer Rationalisierung und Kostenersparnis und in dem einer Stabilisierung der Investitionen im Wirtschaftsablauf.

Gegenüber der heutigen kumulativen Umsatzsteuer ergeben sich durch den Übergang zur nichtkumulativen Allphasensteuer in Form der Nettoumsatzsteuer gewisse *Preis- und Kostenveränderungen,* die ihre fiskalische Leistungsfähigkeit zwar im ganzen eher stärken als beeinträchtigen, unter sozialen und volkswirtschaftlichen Aspekten aber ernsthafte Beachtung erfordern. Im Zusammenhang damit ist auch auf die Frage nach einer stärkeren *Differenzierung* der Nettoumsatzsteuer als Mittel, die in der allgemeinen Verbrauchsbesteuerung noch enthaltenen Steuerreserven zu mobilisieren, noch kurz einzugehen.

Die Frage nach der Leistungsfähigkeit einer Umsatzsteuer, die durch ihre Ausgestaltung als Nettoumsatzsteuer der Überwälzung jede nur mögliche Hilfestellung leistet und damit im Sinne ihres Schöpfers Joh. Popitz zu einer echten *„allgemeinen Verbrauchsteuer"* wird, lässt sich volkswirtschaftlich als Frage nach der steuerlichen Tragfähigkeit des allgemeinen Preisniveaus präzisieren. Sind in dem Preisniveau, das von der gegenwärtigen kumulatieven Umsatzsteuer wesentlich mitbestimmt wird, noch Reserven enthalten, die durch eine marktkonforme Ausgestaltung der Umsatzsteuerbelastung zusätzlich ohne nachhaltige Erhöhung der Lebenshaltungskosten der Bevölkerung erschlossen werden können, so bedeutet eine bessere Anpassung der Umsatzsteuer an das natürliche und volkswirtschaftlich „richtige" Preisgefüge bereits eine gewisse Ausschöpfung dieser Reserven. Darüber hinaus ist in diesem Zusammenhang die Relation der Steuersätze zu den Nachfrageelastizitäten zu prüfen, um zu ermitteln, inwieweit eine stärkere Differenzierung der Steuersätze nach den Erfahrungsregeln der Verbrauchsbesteuerung noch weitere spezifische Steuerreserven erschliessen kann.

Volkwirtschaftlich haben die Preisrelationen innerhalb der einzelnen Märkte und zwischen ihnen die Aufgabe, die echten Knappheits- bzw. Kostenrelationen der Güter und Produktionswege möglichst getreu widerzuspiegeln, um ein Höchstmass an Rationalität beim Einsatz der Produktivkräfte der Gesamtwirtschaft zu gewährleisten. Insoweit die geltende kumulative Umsatzsteuer den „Wahrheitsgehalt" des Preisniveaus in diesem Sinne hisher beeinträchtigt oder sogar das Preisgefüge geradezu verfälscht hat, vermag ihr Umbau zu einer den Preis- und Kostenverhältnissen genauer angepassten allgemeinen Verbrauchsteuer *Umschichtungen* zu bewirken,

die im Endergebnis nicht nur dasselbe, sondern auch *ein erhöhtes Steueraufkommen* ermöglichen, ohne die Lebenshaltung im ganzen zu verteuern, sobald Produktion und Preisbildung sich dem volkswirtschaftlich richtigeren Einsatz der Produktivkräfte adjustiert haben. [6]) In dieser allgemeinen Blickrichtung sind die Umschichtungen zu beurteilen, die sich beim Übergang von der Brutto- zur Nettoumsatzsteuer im Preis- und Kostengefüge der Volkswirtschaft vollziehen müssen. Dass es bei Durchführung der Reform wahrscheinlich in gewissem Umfange zu derartigen Umschichtungen kommen würde, bedeutet also keineswegs eine negative Feststellung zum Thema der Umsatzsteuerreform.

Die Art dieser Umschichtungen ist der Gegenstand der wiederholt erwähnten Diskussion um die fälschlich so genannte „Steuerbelastung" der mit dem Inkasso der Umsatzsteuer betrauten Unternehmungen und Wirtschaftszweige. Die Hauptunterschiede zwischen der bisherigen und der zukünftigen Eingliederung der Umsatzsteuer in die Preise und Kosten ergeben sich aus dem Fortfall ihrer Kumulativwirkung, die heute die Preise der Güter je nach der Zahl und Reihenfolge der Produktions- und Handelsstufen, die sie durchlaufen, ganz ungleich verteuert. Untersuchungen im Finanzwissenschaftlichen Forschungsinstitut an der Universität Köln zur Ermittlung der sich aus einer theoretisch unendlichen Folge von Produktionsstufen kumulierenden Umsatzsteuerbelastung haben ergeben, dass der Umsatzsteueranteil am Verbraucherpreis verschiedener Güter der Eisen-, Stahl und Textilindustrie von 6 bis 15 %, d.h. vom Eineinhalbfachen bis zum Drei- und fast Vierfachen des nominellen Steuersatzes von 4 % variiert. [7]) Diese Zahlen geben zumindest einen Anhaltspunkt für die Einflüsse der kumulativen Umsatzsteuern auf die Preise. Da die Zahl der Umsatzstufen mit dem Grade der Weiterverarbeitung zunimmt, ist im allgemeinen anzunehmen, dass *hochwertig verarbeitete Fertigwaren* bisher *höhere Umsatzsteueranteile* im Preis zu tragen hatten als Rohstoffe und die Lebensbedürfnisse des Alltags. Auf der anderen Seite bedeutet der Übergang zu einer Besteuerung allein nach dem Massstab des Wertschöpfungsanteils statt nach der Summe von Wertschöpfung und Material, dass Unternehmungen und Wirtschaftszweige mit

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[6] Ein einfaches Beispiel wäre die Nutzbarmachung der alljährlich zu Heizungszwecken verbrauchten Brennholzmengen für Zellstoffgewinnung und Chemie, wenn die Kohlen-Transportkosten und Brikettpreise in das volkswirtschaftlich richtige Verhältnis zu den Holz- und Holztransportpreisen sowie zu den Devisenkursen und Welthandelspreisen für Zellstoff treten würden; ob die Beseitigung der Kumulativwirkung der Umsatzsteuer mittelbar oder unmittelbar zu diesem Ergebnis beitragen könnte, mag in diesem Zusammenhang ganz dahingestellt bleiben.

[7]) Schubert, W.: Die Kumulativwirkung der deutschen Umsatzsteuer, Finanzwissenschafliche Forschungsarbeiten, Köln 1950.

einem höheren „Formungskoeffizienten" bei Einführung der Nettoumsatzsteuer prozentual entsprechend höhere Umsatzsteuerbeträge von ihren Abnehmern hereinzuholen haben werden als bisher; dies ist der richtige Kern des oben erwähnten „Belastungs"arguments. Es braucht sich dabei keineswegs um besonders arbeitsintensive Unternehmungen und Wirtschaftszweige zu handeln; ob der höhere Verarbeitungsgrad maschinell oder durch Handarbeit zustande kommt, ist für das Ergebnis ebenso gleichgültig, wie die Frage, ob die besteuerte „Wertschöpfung" sich in einem einzigen Unternehmen oder in einer vertikalen Arbeitsteilung mehrerer Stufen abspielt.

Es ist ja gerade der wesentliche Vorzug der Nettoumsatzsteuer, dass sie konkurrenz- und konzentrationsneutral wirkt. Insoweit die bisherige Kumulativsteuer diese Vorzüge nicht besass, ergeben sich naturgemäss Umschichtungen in den Beträgen, die als Umsatzsteuer seitens der einzelnen steuerpflichtigen Unternehmen aus ihren vereinnahmten Entgelten an die Finanzkassen abzuführen sind.

Nur in diesem sehr eingeschränkten Sinne hat das fälschlich sogenannte „Belastungs"argument Gewicht; nicht einmal von einer besonderen *Liquiditätsbelastung*, wie sie bei besonderen Verbrauchssteuern aufzutreten pflegt, kann bei einer Besteuerung nach vereinnahmten Entgelten die Rede sein, da die Steuer erst nach dem Eingang der Beträge fällig wird. Anders liegt es lediglich dann, wenn die Besteuerung aus Vereinfachungsgründen zu dem Massstab der „vereinbarten" statt der „vereinnahmten" Entgelte übergeht, was übrigens auch heute schon mit Zustimmung des Finanzamtes jederzeit möglich ist. In diesem Falle können jedoch, ähnlich wie bei den besonderen Verbrauchsteuern, durch Einräumung entsprechender Stundungsfristen oder dgl. Vorkehrungen getroffen werden, die die echte Liquiditätsbeanspruchung und das Risiko der Nichtüberwälzung der Steuer auf ein Mindestmass herabsetzen.

Unter diesen Umständen braucht der Übergang zur Nettoumsatzsteuer Bedenken wegen einer erhöhten „Belastung" der mit hohem Formungskoeffizienten arbeitenden gegenüber den materialintensiven Wirtschaftszweigen nicht zu wecken. Die Frage, in welchen Raten und auf welchen Stufen der einheitliche Steuerbetrag einkassiert wird, der in Zukunft auf jedem Erzeugnis ruht, gleichgültig auf welchen Produktions- und Absatzwegen es in die Hände der Verbraucher gelangt, ist relativ unwesentlich, wenn weder eine Liquiditäts- noch eine Risiko„belastung" durch diese Inkassoaufgabe ausgelöst wird. Erst wenn die Überwälzung *nicht* gelingt, entsteht eine echte Belastung der Unternehmen durch die Umsatzsteuer. In dieser Beziehung unterscheidet sich die Nettoumsatzsteuer jedoch abermals durchaus vorteilhaft von der bisherigen

Kumulativsteuer; einmal ist sie, wie erwähnt, als konkurrenz- und konzentrationsneutrale Steuer in hohem Grade überwälzungsfördernd, andererseits vermeidet sie in dem immerhin möglichen Fall, dass die Überwälzung der Steuer im Preis nicht oder nicht vollständig gelingt, die blinde Willkür, mit der in diesem Falle die Kumulativsteuer womöglich mehrerer Stufen auf einem gewissermassen vom Zufall der Marktsituation dazu ausersehenen Unternehmen liegenbleibt, da der Steuerbetrag der Nettoumsatzsteuer, der keine Vorbelastungen enthält, *wenigstens in einem gewissen festen Verhältnis zu der Finanzsitiation* des steuerpflichtigen Unternehmers steht. So wenig die Nettoumsatzsteuer schlechthin als eine Art Bruttoeinkommensteuer bezeichnet werden kann, so wirkt doch im Falle der nichtgelungenen Überwälzung gerade diese ihre Anpassung an das echte wirtschaftliche „Volumen" des steuerpflichtigen Unternehmens, das in seinem Wertschöpfungsbetrag besser zum Ausdruck kommt als in dem um den Wert des steuerlich vorbelasteten Materials erhöhten Bruttoumsatz, in gewissem Masse als Schutz gegenüber der in jedem Umsatzsteuersystem auftretenden Gefahr eines Nichtgelingens der Überwälzung.

Eine weitere Frage, die für die Leistungsfähigkeit der Umsatzsteuer im Hinblick auf ihr Verhältnis zum allgemeinen Preisniveau entscheidende Bedeutung besitzt, ist die der *Differenzierung der Steuersätze*. Die gegenwärtige Kumulativsteuer weist eine recht erhebliche Differenzierung ihrer Steuersätze auf, die von 0 über 1 %, 1,5 % und 3 % bis zum Nominalsatz von 4 % und dem durch die Zusatzsteuer um 3 % auf 7 % erhöhten „Strafsatz" für gewisse missliebige Kombinationen von Herstellung und Einzelhandel geht. Diese Differenzierung multipliziert und potenziert sich noch durch den Kumulativcharakter der Steuern, der seinerseits eine höchst unterschiedliche Belastung der Verbraucherpreises bewirkt, die, wie erwähnt, zwischen dem Eineinhalbfachen und dem annähernd Vierfachen der genannten fünf Nominalsätze schwankt. Die gegenwärtig bereits bestehende Differenzierung der Belastungssätze ist also bereits verhältnismässig breit. Sie beruht jedoch, abgesehen von den Befreiungen und Vergünstigungen für gewisse Lebensmittel, im ganzen weniger auf belastungspolitischen Erwägungen als auf den Zufälligkeiten der Kumulativwirkung und den Versuchen, ihnen durch Massnahmen wie das sogenannte Grosshandelsprivileg, die Organschaftsfiktion und die Zusatzbesteuerung für mehrstufige Unternehmen zu begegnen.

Daraus ergibt sich, dass ein *Umbau der Umsatzsteuer in der Richtung einer Nettobesteuerung des Mehrwerts*, die die Festsetzung klarer und einheitlicher Belastungssätze für die verschiedenen Warenkategarien ohne Rücksicht auf ihren Produktions- und

Absatzweg ermöglicht, *auch einer rationellen Differenzierung dieser Belastungssätze* zugute kommen würde. Selbst wenn diese Differenzierung der Steuer keineswegs über das Mass und die Spannweite der heutigen hinausgehen würde, wäre durch den Verzicht auf die bisherigen Unterscheidungen eine belastungspolitisch sehr erfreuliche Bewegungsfreiheit geschaffen, die sich entweder im Sinne einer weiteren sozialen Abstufung der Steuersätze zur Abmilderung der Regressionswirkung der Umsatzsteuer oder zu ihrer stärkeren fiskalischen Ausschöpfung verwenden liesse; zweckmässigerweise wäre beides miteinander zu verbinden. Das deutsche Umsatz- und Verbrauchsteuersystem ist wohl das einzige in der Welt, das noch heute Kartoffeln und Lippenstifte gleich hoch, nämlich mit dem Kumulativsatz von 4 % besteuert. Es bedarf wohl nur dieses Hinweises, um die Möglichkeiten einer verfeinerten Differenzierung der Steuer in beiden genannten Richtungen anzudeuten, ohne der Rückkehr zu der missglückten Luxussteuer von 1924/25, zu einer Art Aufwandsteuer oder der britischen "Purchase Tax" das Wort zu reden.

Welche *finanziellen Möglichkeiten* in einer Weiterführung dieser Differenzierung der Umsatzsteuer bis zu einer Staffelung der Steuersätze für den gehobenen Bedarf etwa im Sinne der umstrittenen britischen Purchase Tax liegen, geht trotz aller notwendigen Vorbehalte aus den Schätzungen hervor, die amerikanische Sachverständige in den letzten Jahren in der Bundesrepublik angestellt haben und die für eine wesentlich unter den britischen Sätzen liegende Aufwandsteuer (neben der allgemeinen Umsatzsteuer) ein Aufkommen von 1 bis 2 Mrd. DM jährlich erwarten lassen. [8]) Dass in einer veredelten und differenzierten Umsatzsteuer, mag man dieser oder jener Form der Staffelung ihrer Sätze zuneigen, noch erhebliche Reserven enthalten sind, dürfte nach den hier nur angedeuteten Überlegungen nicht zweifelhaft sein; dass ein voller Ersatz für die Einkommensteuer von der Nutzbarmachung dieser Reserven nicht erwartet werden kann, geht andererseits aus den erwähnten Grössenordnungen ebenfalls mit aller Deutlichkeit hervor.

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[8]) Der sogenannte Sonne-Plan schätzte das Aufkommen aus einer derartigen Steuer auf mindestens 1 Mrd. (bis 2 Mrd.), der Hansen-Bericht auf 1,8 Mrd. DM.

THE IMPROVEMENT OF SALES AND TURNOVER TAXES

(Taxation of "added value", "valeur ajoutée", "Nettoumsatz")

BY PROFESSOR G. SCHMÖLDERS

SUMMARY

Compared with the income tax enthousiasm of the 19th century, a remarkable disillusionment is prevailing in our age of excessive income taxation, which is a serious disincentive to economic activity. This accounts to some extent for the return, in most tax structures, to the medieval general exise, sales or turnover tax, which seems to take the leading rôle instead of income taxes on individuals. Sales taxes, purchase taxes and turnover taxes in various forms have been introduced, following the German example, in France, Belgium, Italy, Great Britain and Switzerland, temporarily even in some of the Scandinavian countries, let alone the USSR, where the general turnover tax is the main instrument not only of fiscal, but of economic and social policy. Even in the United States the National Association of Manufacturers has proposed a federal sales tax in order to facilitate a reduction in the rates of profits and excess profits taxation; the virtues of this tax, which avoids much of the natural resistance provoked by most of the so-called direct taxes, have been underscored in the same degree as the probability of the final incidence of income taxation on individuals was overestimated.

The regressive effect of a tax burden imposed by indirect taxation can be prevented by charging differential rates for different goods; another disadvantage of the general turnover tax is its impact on competition, which becomes more serious as the rates increase and as the tax is levied on many or all of the subsequent stages of production and sale.

30 years ago in Germany an improvement of the simple turnover tax was proposed; not the total value of sales, but only the "value added" at each stage of production and sale was proposed as a tax base (Nettoumsatzsteuer). The considerable advantages of this form of sales taxation, which have been utilized e.g. in the French „taxe à la production", are thoroughly discussed; as compared with income and profits taxation, the improved turnover tax seems to promise a practical solution of some of the most urgent problems of taxation.

L'AMELIORATION DES TAXES SUR LES VENTES ET DES TAXES SUR LE CHIFFRE D'AFFAIRES

(Taxation de l' „added value", „valeur ajoutée", „Nettoumsatz")

PAR LE PROFESSEUR G. SCHMÖLDERS

RESUME

Comparé à l'enthousiasme que soulevait l'impôt sur le revenu au XIXe siècle, on relève à son sujet bien de la désillusion à notre époque qui voit une taxation excessive sur le revenu exercer une influence déprimante sur l'activité économique. Ceci explique une certaine tendance, dans la plupart des systèmes fiscaux, à un retour vers un système général, datant du moyen-âge, de droits d'accises, de taxes sur les ventes et sur le chiffre d'affaires, lequel semble devoir jouer un rôle primordial en lieu et place des impôts sur le revenu à charge des particuliers. Des taxes sur les ventes, des taxes sur les achats et des taxes sur le chiffre d'affaires ont été introduites sous des formes variées, à la suite de l'exemple allemand, en France, Belgique, Italie, Grande-Bretagne, Suisse et même temporairement dans certains pays scandinaves. Ne parlons pas de l'URSS où la taxe générale sur le chiffre d'affaires est l'instrument principal de la politique non seulement en matière fiscale, mais aussi au point de vue économique et social. Même aux Etats-Unis la National Association of Manufacturers a proposé une taxe fédérale sur les ventes de manière à faciliter la diminution du taux des impôts sur les bénéfices et les bénéfices exceptionnels. Les avantages de cette taxation, qui évite souvent de heurter la résistance naturelle provoquée par la plupart des impôts qu'on nomme directs, ont été sous-évalués dans la même mesure où l'on surestimait la possibilité de faire supporter par les particuliers le poids de l'impôt sur le revenu.

L'effet dépressif de la charge d'un impôt indirect peut être évité en établissant des taux différents pour des marchandises différentes. Un autre inconvénient de la taxe générale sur le chiffre d'affaires est son effet sur la concurrence, effet d'autant plus important que les taux de l'impôt augmentent et que la taxe est levée sur la plupart ou sur tous les stades successifs de la production et de la vente.

Il y a 30 ans, l'Allemagne a vu une amélioration de la taxe pure et simple sur le chiffre d'affaires: ce n'était plus la valeur totale des

ventes mais seulement la „valeur ajoutée" à chaque étape de la production et des ventes qui devait servir d'assiette à l'impôt (Nettoumsatzsteuer). Les avantage considérables de cette forme de taxe sur les ventes, que l'on a reprise par exemple dans la „taxe à la production" française, sont discutés. Par rapport à l'impôt sur le revenu et sur les bénéfices, la taxe perfectionnée sur le chiffre d'affaires semble promettre une solution pratique de quelques-uns des problèmes des plus urgents de l'Impôt.

DE QUELQUES ELEMENTS THEORIQUES PRELIMINAIRES A TOUTE ACTION GOUVERNEMENTALE

PAR ERALDO FOSSATI *)

Sommaire: 1. Le domaine de la politique économique et la théorie économique. — 2. Le problème de la capacité effective et de la capacité potentielle de production. — 3. La revision des conceptions acquises de la théorie financière. — 4. Le rôle dominant de la politique financière par rapport à la politique monétaire. — 5. Les autres modes d'action politique. — 6. Nécessité rationnelle d'une unité d'action. — 7. Le budget national. — 8. Le modèle économétrique de décision.

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1. Les problèmes sans cesse plus graves et plus complexes, qui, chaque jour peut-on dire, se posent à l'attention des gouvernements, font penser plus que jamais aux paroles de Léon WALRAS: „Le grand principe baconien: *Homo naturae non nisi parendo imperat,* s'applique à la politique comme au génie civil. Des deux cotés il y a les forces naturelles et il y a l'ésprit humain. Il faut que l'esprit humain connaisse les forces naturelles pour leur obéir, et il faut qu'il leur obéisse pour leur commander". [1])

De là, le contraste évident entre *politique scientifique* et *politique empirique,* celle-ci définie par WALRAS en ces termes sévères: „Cette politique consiste essentiellement à résoudre pratiquement des questions qui ne sont pas résolues théoriquement. Tels des praticiens, qui se livreraient à des opérations médicales et chirurgicales, sans savoir l'anatomie, la physiologie, la pathologie". [2]) On peut bien dire désormais que, toute renonciation aux moyens scientifiques pour l'élaboration des actions économiques dans le domaine de la politique est inadmissible.

La politique se propose des objectifs à atteindre dans le cadre de conditions que l'on peut contrôler et des conditions que l'on ne peut peut pas contrôler. Donc, pratiquer une politique veut dire maximiser les résultats dès que sont connues les conditions qui ne peuvent pas être controllées.

De nos jours, il est banal d'affirmer le rôle stratégique qu'exerce désormais l'Etat sur les affaires économiques. On peut discuter sur l'ampleur de cette fonction étatique, mais il est impossible de la nier. Le siècle dernier nous a laissé en héritage des philosiphies rivales:

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*) L'auteur est professeur ordinaire de politique économique et financière à l'Université de Gênes.

1) *L. Walras,* L'économie appliquée à la défense des salaires, dans „Etudes d'Economie politique appliquée", Lausanne 1898, p. 271.

2) *Walras,* Discours du Jubilé, 10 juin 1909, publié dans la „Gazette de Lausanne", Supplément au No 136 der 11 Juin 1909.

l'une qui parle de l'Etat comme d'une institution à décrire en termes purement politiques sans presqu'aucun aspect économique, la seconde qui connaît l'Etat seulement en termes économiques, ramenant son aspect politique à un rôle tout à fait secondaire pour la raison que le développement historique serait dominé exclusivement par des forces économiques. Ni l'une ni l'autre ne peut donner de lumière à l'homme de science sinon dans ses aspirations personnelles d'être humain, acteur de la vie politique. Sa fonction de rechercher le sens de tout évènement le lie à un seul problème, très simple à énoncer, mais bien compliqué à résoudre: définir la structure du mécanisme économique afin de voir les forces qui agissent, d'en mesurer l'intensité et de proposer différentes actions dont chacune doit être la plus efficace eu égard aux objectifs à poursuivre.

Au point de vue doctrinal, on peut concevoir l'avenir de la société moderne modelé d'après les bases suivantes:

a) l'initiative privée doit être préférée à tout contrôle de l'Etat, de sorte que l'Etat doit seulement veiller au respect des conditions nécessaires et suffisantes pour que la libre concurrence puisse jouer au maximum;

b) le contrôle de l'Etat représente le moyen le plus efficace d'assurer le progrès économique;

c) il n'y a aucune inévitabilité de choix entre la première proposition et la seconde.

Quoi qu'il en soit de ces théories, nous savons bien que là même, où l'Etat n'a pas instauré le contrôle général de la vie économique, il est pourtant devenu le moteur fondamental de son mécanisme. L'homme de science, par conséquent, n'est plus seulement appelé à constater des phénomènes, mais il doit aussi en arriver à les déterminer dans une certaine mesure, qui naturellement dépend des limites assignées par le Gouvernement à sa fonction nécessaire de guide pour les décisions du Gouvernement lui-même.

La science économique du siècle dernier nous avait donné une explication *physique* des variations économiques; de nos jours, nous devons aussi en admettre une explication *institutionnelle*, qui nous permette de parler de leur détermination imposée par l'Etat.

L'Etat diminue le revenu de ses citoyens par toute collecte de fonds, qu'il ordonne et, ainsi réduit-il la demande privée de biens et de services, tandis que, grâce à sa propre demande de biens et de services, il influence directement les ressources de la nation. De cette manière, il agit donc:

a) sur la quantité totale de la dépense nationale;

b) sur sa direction.

A côté des fins traditionels de l'Etat, son action poursuit la correction des activités économiques des particuliers, soit en faisant ce que ceux-ci ne sont pas capables de faire, soit en les poussant vers des domaines particuliers d'activités.

Les problèmes économiques de gouvernement, entendant naturellement par *„l'économique"* aussi *„le financier"*, reviennent en substance à déterminer l'influence de certaines grandeurs fixées par l'Etat sur les autres variables, que l'Etat laisse libres. [3]) Il peut arriver qu'on observe des effets contradictoires de sorte que le résultat exact de l'action de l'Etat s'établira par la comparaison quantitative de l'apport des diverses tendances développées. On peut immédiatement en déduire la nécessité d'un examen embrassant le système économique complet. Il sera possible de préciser certaines relations avec plus de détails par rapport aux autres, mais le problème fondamental reste toujours que le système doit être assez complet de manière a être déterminé.

Chacun aperçoit immédiatement et aisément, que dans cette conception la théorie économique devient la lumière, qui naturellement doit éclairer toute proposition de politique économique.

Malheureusement, nous pouvons constater ici quelques, dirais-je, contrastes entre la recherche, qui vit du réel et s'adresse au réel, et certaines incompréhensions de la part de ceux, qui doivent l'appliquer. En concluant sa *„General Theory"* J. M. KEYNES a dans une forte critique écrit à ce propos: „Practical men, who believe themselves to be quite exempt from any intellectual influence, are usally the slaves of some defunct economist . . . . in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are note likely to be the newest". [4])

2. En citant le nom de KEYNES, nous rappelons naturellement celui, auquel la pensée économique de nos dernières vingt années doit le plus. Il faut définitivement abandonner toute querelle *pour* ou *contre* ce grand économiste. Nous devons bien nous convaincre nous-mêmes et, permettez-moi d'ajouter, il faudrait convaincre aussi tous les hommes, qui s'interessent aux problèmes politiques, que sans KEYNES beaucoup de problèmes actuels ne pourraient pas être résolus.

KEYNES, on le sait, nous a permis de sortir de la contradiction

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[3]) Voir nos volumes „Frammenti di teoria dinamica", Genova, 1953 (2me édition) et „Elementi di politica economica razionale" Padova 1953.

[4]) *J. L. Keynes*, The General Theory of Employment, Interest and Money, London, 1936, p. 383-384.

d'un système statique, qui ambitionnait de servir de moyen et de guide au dynamisme de la vie grâce à un pont très fragile jeté entre l'abstraction statique et la réalité. Ce pont, on s'en aperçoit immédiatement, est la loi de J. B. SAY [5]). KEYNES l'a fait sauter d'une manière éclatante en nous ramenant à la tradition économique malthusienne, que le grand nom de Ricardo avait étouffée. L'offre n'agit plus directement sur création de la demande. La relation directe entre offre et demande est coupée par le facteur revenu, qui donne toute leur signification à ces deux termes. L'offre trouve son origine dans le revenu, mais il n'est pas dit qu'elle le transforme automatiquement en demande. Pour la théorie „économique" cette considération peut être comparée à l'ouverture d'un éventail: d'un seul coup, nous pouvons grâce à elle embrasser tous les problèmes qui s'y trouvaient enfouis et découlent du fait qu'on a déchiré le *„voile"*, auquel la loi de SAY avait réduit la tâche de la monnaie. [5] bis)

Une fois éliminé le postulat fondamental de l'homogénité d'ordre zéro des fonctions de demande et d'offre, auquel cette loi était liée, il devient tout à fait naturel d'envisager des systèmes à facteurs de production sans emploi. La considération de ressources sans emploi en tant que phénomène indépendant du cycle économique se présente ainsi pleine d'intérêt et la recherche touchant les phénomènes d'emploi en sortant du domaine de la périodicité pour entrer dans celui de la tendance séculaire, amène à interpréter la question fondamentale des systèmes économiques modernes: pourquoi capacité potentielle et capacité effective de production sont-elles empêchées de se correspondre?

A cause de cette question l'Etat a trouvé, même dans les systèmes individualistes, un nouvel aspect. Il lui incombe de résoudre un nouveau problème *ordinaire:* faire entrer les ressources sans emploi dans le circuit productif. D'où deux considérations fondamentales 1ère) la demande totale ne peut pas être abandonnée à elle-même: elle doit représenter une grandeur déterminée, si l'on veut arriver au plein emploi et si l'on désire le garder; 2me) la plus grande unité économique, la seule qui puisse négliger la question du profit, doit remplir la fonction de créer l'emploi manquant.

Le principe de la demande effective amène ainsi à l'analyse de la différence entre production nationale nette potentielle et capacité de

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5) *P. Lambert,* La loi des des débouchés avant J. B. Say et la polémique Say-Malthus, dans Revue d'économie politique, janvier 1952.

5bis) Voir nos écrits „Vilfredo Pareto dans son et notre temps" dans Revue d'économie politique 1949, „A note about the utility of money" dans Metroeconomica, 1950 et Econometrica 1952, et le texte de nos leçons professées à l'université de Liège", „Quelques éléments de théorie dynamique", Liège, 1953.

dépense pour acheter cette production. Cette analyse donne évidemment le programme théorique de l'action de l'Etat. On voit bien ici, me semble-t-il, le nouveau caractère que va prendre de cette manière la façon d'envisager la politique économique: il ne s'agit plus d'estimer les interventions de l'Etat à la lumière du principe que *l'optimum* du dynamisme économique serait représenté par le simple jeu des libres activités individuelles, mais bien, si l'on veut rester dans les systèmes respectueux de l'activité individuelle, de fixer le dit *optimum* dans l'action coordonnée des particuliers et de l'Etat appelé à suppléer aux insuffisances de l'activité des premiers.

L'économiste est donc appelé d'un côte à élaborer des *principes théoriques nouveaux* et de l'autre à déterminer des *moyens spécifiques* pour la solution des problèmes concrets que l'Etat doit résoudre.

3. Sur le plan du système économique individualiste, la contribution de KEYNES a été le point de départ d'une revision profonde des conceptions. Si cette revision a été tellement vive sur le plan proprement économique, on ne peut pas dire qu'elle a revêtu la même importance sur le plan *financier*. Cela est difficilement compréhensible lorsque'on sait que la théorie financière est le reflet de la théorie économique et devrait partant se ressentir de tout ce qui se passe dans celle-ci. La recherche financière a été riche de contributions dans l'analyse des relations entre le particulier et l'Etat, mais nous ne pouvons pas dire qu'elle a été également riche de succès dans l'analyse des relations entre l'Etat et le système économique dans son ensemble. Ici on s'aperçoit immédiatement, que nous pensons au problème de l'*agrégation*, que la théorie financière n'a pas encore abordé d'une manière complète. Elle se trouve là sur le plan du mode de taxation, qui de quelque manière en résume la nature et les uniformités. On sait qu'elle propose à notre attention deux moments fondamentaux: 1er) le transfert du pouvoir d'achat du contribuable à l'Etat; 2nd) le transfert du pouvoir d'achat de l'Etat au système économique. Le premier moment représente ce que j'appelerais le centre de la théorie financière, tandis que le second, tout en ne lui étant pas absolument inconnu, attend encore une recherche en profondeur. Nous savons qu'on a reconnu déjà depuis longtemps qu'il y a erreur à considérer l'impôt seulement comme une perte de richesse [6]) sans donc tenir compte des réactions dérivant du fait de son emploi. L'Etat en employant ce qu'il tire du contribuable, creé évidemment une nouvelle demande de biens et de services. Cependant, ce qui fait défaut, c'est une recherche financière systématique, qui soit l'expression du rejet de la loi de Say. Cette loi est toujours

[6]) Voir *A. de Viti de Marco*, Principi di Economia Finanziaria, Torino, 1934, p. 122 et *L. Einaudi*-Principi di scienza della finanze, Torino, 1949, p. 271 et suivantes.

vivante sur le terrain financier, quand même on ne l'avoue pas. La nécessité logique de comprendre dans l'étude de la taxation, l'étude des conséquences de son emploi, c'est-à-dire des dépenses dérivées de la taxation même, s'est tournée vers le chapitre des conséquences de la taxation pour dénoncer le caractère provisoire et partiel de toutes les théories de l'incidence et des autres effets de la taxation. Mais c'est tout. On n'est donc pas arrivé à aborder systématiquement le véritable grand problème financier de notre temps: l'introduction de la dépense de l'Etat dans le grand ensemble des éléments théoriques fixés par le principe de la demande effective. D'une certaine manière, je dirais, que c'est naturel, car si l'on se fonde sur le principe immuable de l'emploi inévitable et normal des facteurs de production par l'activité des particuliers, on doit logiquement en déduire, que l'Etat ne peut les employer, qu'en empêchant l'emploi que les particuliers pourraient en faire. Les relations entre revenu national, taxation et dette publique ne peuvent être ainsi conçues qu'en rendant minimum ce que l'Etat doit collecter par la taxation et la dette publique et en estimant, selon la tradition ricardienne, égales, sauf quelques exceptions secondaires, les conséquences de l'impôt et de l'emprunt. Mais, aussitôt que nous abandonnons la loi de Say, ces conclusions doivent céder devant la constatation de la possibilité de l'accroissement du revenu national, soit à cause de l'impôt, soit à cause de la dette publique.

Dans le cadre de la loi de Say, on ne peut aboutir qu'à des considérations de l'espèce suivante: le système fiscal actuel représenterait une déformation du système pur, qui établit l'impôt comme moyen de financer les dépenses publiques tradionnelles et de répartir les charges collectives; ou encore: sa signification rationnelle doit se retrouver dans la mesure, où les instruments de politique fiscale sont efficients et se présentent comme les plus aptes à réaliser les buts fixés.

La neutralité fiscale, sur le plan concret, reste comme cas-limite, si l'on ne veut pas rejeter complètement la rationalité même de la théorie financière, ce qui ne semble, peut-être, pas exclu.

L'élément social a déterminé la ruine de l'abstraction financière de la neutralité fiscale, et partant a donné naissance à la distinction entre *objectifs fiscaux* et *objectifs extrafiscaux* pour justifier toutes les dispositions financières, qui ne répondent pas au principe de la neutralité. Que devient cet élément social, si riche de conséquences financières non-rationnelles, aussitôt que nous sortons du plan traditionnel pour passer sur celui du principe de la demande effective? Il prend alors une signification rationnelle dans une théorie financière sachant identifier le social avec l'économique.

Bien entendu, je ne voudrais pas que ces mots puissent laisser

l'impression, que je ne reconnais pas tant de merveilleuses contributions à la théorie financière de nos jours. Nous tous connaissons les travaux qui, dans les années présentes, ont enrichi le patrimoine financier. La plupart des contributions a été donnée par des économistes plutôt que par des financiers et cela peut faire réjouir les économistes, car c'est l'annonce que le divorce entre économie et science des finances, qui a commencé de s'affirmer après Ricardo, va se transformer en un nouveau mariage sous le patronat de KEYNES.

Ainsi, on a défini les effets d'expansion et de contraction dûs à l'activité financière; on a précisé le contraste entre conception privée, comptable et conception publique du budget de l'Etat; on a établi le principe du budget équilibré; on a déterminé théoriquement les conséquences de la grandeur et de la structure du budget de l'Etat pour l'activité économique. Pourtant, cela ne veut pas dire, que tous les problèmes de la théorie financière moderne ont été résolus. D'où la nécessité d'une revision systématique du patrimoine scientifique actuellement existant, afin d'éclairer tant de questions, qui attendent encore une réponse. Pour nous en convaincre, il nous suffit de penser aux recherches sur la structure *qualitative,* et pas seulement *quantitative,* des recettes et des dépenses qui agissent sur la propension des particuliers à consommer et à investir; pensons aussi aux problèmes de la dette publique encore sous l'influence de gros résidus ricardiens. [7])

KEYNES, en nous rappelant la possibilité de l'accroissement du revenu national total, grâce à la taxation et à la dette publique, nous a donné des fondements précieux pour une revision systématique, profonde des conceptions traditionnelles.

Lorsque la dépense publique alimentée par l'emprunt public est utilisée à créer de l'emploi aux forces productives, la dette publique s'établira sur des bases *d'autoliquidité* évidente, si la dépense prend la forme d'investissement dont les fruits couvrent le service de l'intérêt et de l'amortissement. Ce ne sera pas complètement évident, mais cependant réel, si la dépense n'est pas un pur investissement, car elle aboutit toujours à l'emploi d'une quantité plus grande des forces productives, ce qui doit accroître le revenu national. Sans doute reste-t-il le problème de la limite de l'expansion de la dette publique mais, comme je l'ai montré il y a déjà plusieurs années [8]), cette limite ne peut pas être mise en rapport avec la grandeur

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[7]) Voir nos „Elementi di politica economica razionale" déjà cités, chapitre VIme.

[8]) Voir nos écrits „Premesse economiche e finanziarie all' occupazione integrale", Roma 1946 et „Ueber einige wirtschaftliche und finanzwirtschaftliche Tendenzen der modernen politischen Systeme", dans Zeitschrift für Nationaloekonomie, 1952.

absolue de la dette publique. Elle doit être évaluée dans le cadre de ses relations avec les autres variables et en particulier avec le revenu national. Il est de toute évidence, que si le revenu restait constant ou s'il avait tendance à se réduire, alors qu'il y aurait expansion de la dette publique, le rapport entre le coût du service et le revenu s'élèverait. Mais, si au contraire le revenu national présentait une tendance à s'accroître, comme en réalité il est normal en raison de l'emploi *crescendo* des forces de production, la situation devrait se comprendre d'une manière tout à fait différente. S'il est vrai, que le rapport de la dette au revenu dépend du taux d'accroissement de celui-ci, on peut en déduire que d'autant plus rapide sera l'accroissement du revenu d'autant plus petit sera ce rapport. Cette considération est aussi valable pour un pays grevé d'une grosse dette par rapport à son revenu; il peut améliorer ses conditions même, si sa dette s'accroit dans une mesure supérieure à celle de son revenu, pourvu toutefois que le rapport entre l'accroissement de la dette et celui du revenu national devienne plus petit que celui qui existait précédemment.

La portée réelle de la dette publique intérieure, pour la même raison que celle de la taxation, doit être recherchée dans l'expansion du revenu national.

4. Dans les variations du revenu national nous trouvons les éléments, qui limitent le développement de la taxation et de la dette publique. Les considérations d'ordre financier, que nous venons d'énoncer en termes très simples et très succints, mériteraient d'être développées, si nous n'étions pas limités par l'espace, dont nous disposons. Elles ont été rappelées ici pour la raison, que la politique financière a désormais acquis, de nos jours, la priorité par rapport à toute autre espèce de politique notamment monétaire. Celle-ci a perdu, il faut en convenir, son rôle dominant traditionnel.

Naturellement, il ne s'agit pas de prendre des positions unilatérales. Toute la politique économique est étroitement unie dans tous ses divers aspects à cause et à raison de la dépendance mutuelle des quantités intervenant dans le système économique. On sait, que l'Etat agit sur le revenu national et sur l'emploi en recourant, soit à la *voie financière* par les dépenses publiques propres directement à créer l'emploi ou par des interventions agissant directement sur le revenu des particuliers, soit à la *voie monétaire* en agissant sur la préférence pour la liquidité, c'est à dire en agissant sur le volume de la monnaie dans le système économique ou sur les facilités de crédit, soit encore à la *voie structurelle*, qui opère sur les éléments de structure.

La voie financière, que l'on considérait, il y a quelques années, comme un moyen de compensation *per accidens* de toute déformation

de l'activité économique, est devenu de nos jours le moyen de compensation à portée *organique*. Si la dépense est le fondement de l'activité économique et si le revenu en est le résultat, il est évident que l'on doit attribuer la priorité à la voie financière et que l'on doit repousser toute identification des critères valables pour le budget de l'Etat à ceux, qui valent pour le budget du particulier. Si tous deux ont pour but d'accroître *au maximum* le revenu, il est bien certain, que les moyens d'y parvenir sont fort différents. Pour le particulier, le premier souci doit être de maintenir ses dépenses au dessous ou dans les limites de ses recettes; pour l'Etat au contraire l'accroissement de ses dépenses au dessus de ses seules recettes peut devenir, comme nous l'avons déjà dit, un élément d'accroissement même du revenu national et par conséquent un élément d'amélioration des conditions financières. On voit ainsi quel contraste existe entre la vision, que j'appellerais *comptable* et la vision *économique* du budget de l'Etat; la première est accoutumée de mesurer le résultat de gestion exclusivement en termes de gain ou de perte eu égard à l'unité économique considérée comme fin à soi-même, la seconde au contraire doit mesurer ce même résultat en termes de fonctionnement du système économique et par consequent de *revenu national*.

5. L'action financière a son premier complément dans l'action *monétaire*, sous les réserves a) que celle-ci neutralise les forces monétaires qui empêchent le plein développement de l'action financière, b) qu'elle puisse renforcer l'action financière. Si l'on veut obtenir au *maximum* l'identification entre capacité effective et capacité potentielle de production, il faut rechercher aussi la stabilité monétaire. Une économie, qui souffre de fortes variations de prix, ne peut pas aspirer à des hauts et stables niveaux d'emploi des forces productives. Et pourtant, il faut rester conscient du danger d'inflation, non certes pour le craindre à tout instant, mais pour interpréter exactement l'essence du phénoméne, c'est-à-dire de l'expansion du revenu monétaire au delà de l'activité, qui a permis de l'acquérir.

La *voie structurelle* touche à la constitution du système économique, c'est-à-dire à la manière de son fonctionnement. La structure d'un système doit être interpretéé comme l'expression des caracterès de la constitution susceptibles de donner lieu à leur description quantitative. On peut distinguer la politique structurelle, au sens strict du mot, de la politique du „trend". Pratiquement, quand on dit politique structurelle, on embrasse l'un et l'autre type de politique.

Dans la conception générale ici esquissée, la politique doit évidemment s'alimenter de notions exactes quant aux relations entre consommation et investissement, recettes et dépenses de l'Etat, exportation et importation par rapport à leur effet d'expansion ou de contraction du revenu national.

6. Ceci impose naturellement une méthode spécifique d'évaluation et de délimitation des problèmes nationaux, à resoudre, de manière à pouvoir définir pour un avenir bien déterminé une ligne unitaire d'action par rapport aux variables économiques. Il est bon de mettre l'accent sur le mot „unitaire", car c'est seulement si les différents mesures à prendre font partie d'un programme général ayant une seule inspiration, qu'on peut éliminer toutes les conséquences dangereuses des interventions isolées. Celles-ci se présentent foncièrement comme des actions, qui font surgir toujours de nouveaux problèmes en s'efforçant d'en résoudre un seul. L'unité d'action donne aux économies modernes l'aspect d'économies planifiées. La planification ne peut cependant pas faire indentifier les systèmes, dont nous traitons, aux systèmes collectivistes. Les plans en vigueur dans ces derniers sont *impératifs,* tandis que les nôtres sont *orientatifs*. La planification des Etats collectivistes se réalise *contre* la système des prix considérés simplement comme moyen de comptabilité sociale. La planification des Etats individualistes au contraire se réalise *à travers* le système des prix considérés essentiellement comme indices des goûts individuels et comme mesure de tension du système. Nous disons essentiellement, car même notre système des prix est en pleine évolution et va se transformer, devenant toujours davantage, plutôt qu'un régulateur de la demande sur le marché, un régulateur des revenus avec la conséquence, que le mécanisme *coûts prix* engendre directement le chômage dès que la valeur de la production n'en couvre pas le cout. Il ne faut pas oublier, que ces coûts ne représentent pas toutefois ce que les services productifs valent dans ces conditions specifiques, mais ce qu'ils pourraient valoir dans des meilleures conditions.

Il est clair, qu'une fois placés sur le plan des programmes, qui donnent un contenu exact au terme „bien-être général", devenu de nos jours totalement abstrait, il nous faudra disposer de données propres à spécifier le mécanisme des prix et des quantités.

7. De ce fait, il faut essentiellement analyser: a) le niveau général de la production b) les tendances de la production c) l'allocation des ressources aux différents secteurs de production d) l'emploi de la production nationale, car le *niveau général de la production* représente dans une certaine mesure le baromètre des conditions générales de l'économie; les *tendances de la production* montrent l'accroissement ou la réduction de la production correspondant aux variations dans le degré de développement des différents secteurs de production et de cette manière déterminent les responsables de la *nature,* du *développement* ou de la *contraction* de la production; *l'allocation des ressources aux différents secteurs de production* pose le problème de leurs insuffisances et donc le problème de l'*optimum*

de leur emploi; enfin *l'emploi de la production nationale* pose la question des dispositions à prendre pour la consommation ou l'investissement, privé ou public.

Par ces considérations, nous nous retrouvons sur le plan du *budget national,* c'est-à-dire de l'inventaire des ressources nationales et de leur emploi pendant un certain passé (le *budget rétrospectif)* point de départ pour arriver à la détermination rationnelle des lignes d'une action économique et financière pendant un avenir déterminé *(budget prospectif).* Le budget prospectif les traduit quantitativement dans la situation d'équilibre à poursuivre. Le budget de l'Etat, c'est évident, devient ainsi une partie du budget national; même si on lui maintient un caractère formel, il cesse d'être le simple miroir de l'activité de l'Etat ignorant les problèmes rappelés ici.

Le budget national prospectif reflète le choix d'une politique particulière parmi différentes politiques possibles.

8 Nous avons déjà dit, que les problèmes économiques de gouvernement consistent à déterminer l'influence de certaines grandeurs fixées par l'Etat sur les autres que l'Etat laisse indéterminées. Cette considération, que j'avais timidement avancée en 1935 [9]) (qu'il me soit permis de la rappeler à cause du grand développement qu'elle a pris dans la suite) entraîne, comme elle m'y a amené, l'*inversion* du problème de l'équilibre général.

Il n'y a aucune contradiction entre notre adhésion affirmée jusqu'ici au système keynesien et ce rappel, parce que nous pensons, que la theorie de l'équilibre général est un appareil insurpassable d'analyse, même si elle empêche toute considération dynamique en nous offrant un système, où toutes les variables sont vues *dans un seul instant du temps,* C'est en considérant la statique comme *cas limité* de la dinamique, que l'on peut trouver, je me flatte d'avoir ailleurs montré, le point de rencontre entre le système de l'équilibre général et la vision dynamique de Keynes, dont le système est simple si, comme Keynes lui-même nous l'a dit, on abandonne la *forma mentis* traditionnelle. Pourtant, si à partir de Keynes on examine la tradition, il semble qu'on voie aisément que la révolution keynesienne n'est, à vrai dire, qu'une forte évolution, dont le point de départ est le problème monétaire incompatible avec le cas limité de la dynamique, c'est-à-dire la statique. [10])

Si nous posons le problème de l'action gouvernementale dans la

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[9]) Voir mes „Osservazioni sulla legge di Wieser per la determinazione del valore di una provvista di beni omogenei", 1935, réimprimé dans nos *Frammenti di Teoria dinamica,* p. 15 (note).

[10]) Voir: „Quelques éléments de théorie dynamique" notre cours professé à l'Université de Liège, déjà cité.

détermination de l'influence de certaines grandeurs fixées par l'Etat sur les autres laissées libres par l'Etat, nous sommes fatalement amenés au modèle économétrique de décision selon la dénomination de Frisch [11]). Celui-ci a pour essence le fait fondamental que les *données* ne sont pas celles des problèmes économiques traditionnels, mais elles représentent en partie des buts politiques à poursuivre (soit un certain niveau d'emploi, un certain standard of life, un certain équilibre dans la balance des comptes) et les inconnues sont représentées par un certain nombre de paramètres politiques. Lorsqu'on spécifie une série des variables et un ensemble de relations, on aboutit même à un certain nombre de *degrès de liberté*, c'est-à-dire à un certain nombre de directions, dans lesquelles il est possible de faire varier les caractères de la situation.

D'où les problèmes fondamentaux: a) dans quelles limites peut-on agir sur une de ces variables sans déterminer des effets sur les autres? b) est-il possible d'agir sur une ou plusieurs variables sans conséquences contradictoires? c) est-il possible de cumuler ces effets dans la direction prévue? d) quelle est la limite, ou maximum de leur intensité?

Dans ce modèle on voit, que le rôle des variables connues et inconnues est totalement ou partiellement inversé par rapport aux systèmes traditionnels d'équations, comme cela doit être en partant du principe, que nous avons rappelé de notre texte de 1935; tandis que les inconnues sont les grandeurs de certains paramètres politiques, un certain nombre de variables économiques, au sens traditionnel du mot, deviennent les buts donnés.

Ce modèle de décision se présente en élément essentiel de l'analyse de choix entre politiques possibles. Afin qu'une politique économique puisse, en général, aboutir à un ensemble de valeurs ordonnées à des fins déterminées, il faut que le nombre des équations indépendantes et compatibles soit égal au nombre des inconnues, parametres politiques plus le nombre de ces inconnues (variables économiques), qui n'ont pas été érigées en fins. Si le système des équations est incompatible, la politique économique envisagée sera inconsistante ou contradictoire; s'il est indéterminé, elle sera indéterminée. On doit bien admettre, que la solution du système n'exclut pas que quelques difficultés puissent surgir parce que les valeurs obtenues par la solution ne peuvent pas toujours être accueillies pour des raisons extra-économiques. Mais on doit

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11) Voir *R. Frisch,* Price-wage-tax-subsidy policies as instruments in maintaining optimal employment, New-York, 1951; *J. Tinbergen,* Econometrics, Philadelphia 1951; *G. Tintner,* Econometrics, New-York 1952; notre essai „Dell'econometria", Metroeconomica 1952 (On est en train de le traduire en français par les *Cahiers d'économie politique).*

bien aussi reconnaître que ce modèle de décision, qui permet d'évaluer a) les effets de diverses politiques possibles dans un ensemble de conditions données non-contrôlables; b) l'avenir des conditions non contrôlables; se confirme être un moyen d'importance capitale pour la définition de la politique à suivre.

Désormais, la question n'est plus d'y recourir ou non, mais seulement de perfectionner essentiellement sa technique par rapport soit à l'estimation des paramètres, soit à l'estimation de la distribution des probabilités des variables non spécifiées, qui font partie des termes casuels des équations.

Nous nous sommes efforcés de fixer des éléments théoriques et méthodologiques préliminaires à toute action économique gouvernementale. Si nous ne nous trompons pas, nous souhaiterions avoir pu éveiller un souci de curiosité pour la politique scientifique, souci qui, j'aimerais le penser, puisse me permettre de terminer par les paroles de Walras: „Faire librement la science d'abord et faire ensuite rationnellement la politique". [12])

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[12]) *Walras,* Discours du Jubilé, déjà cité.

SOME ELEMENTS OF THE THEORY DETERMINING ALL GOVERNMENT ACTIVITY

BY PROFESSOR ERALDO FOSSATI

SUMMARY

The author considers the difference between scientific and empirical economic policy. In our days it is no longer possible to disregard scientific means in planning economic activity. Policy must aim at certain objects to be reached within the framework of prevailing conditions, some of which are, some of which are not under Government control. The State is every-where becoming a strong, if not the only, agent conducting the economic system. Therefore, as the author wrote many years ago[1]), the political problem is one of determining the influence of some variables controlled by the State itself on those not controlled by the State. The economic theory should thus be the natural guiding principle of the State's economic activity. The autor considers Keynes' General Theory as the pivot of his analysis, which is developed on the basis of three fundamental aspects of economic policy: (a) financial, (b) monetary and (c) structural aspects.

From this he derives the means of translating these general principles into practical activity. Particularly he considers the "decision model".

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1) See E. Fossati, Osservazione sulla legge di Wieser per la determinazione del valore di una provvista di beni omogenei (1935), reprinted in Frammenti di teoria dinamica, Trieste, 1952.

THE COMMISSION ON INTERGOVERNMENTAL RELATIONS AND GRANTS-IN-AID IN THE UNITED STATES

BY HOWARD D. HAMILTON

Research Analyst Department of Revenue State of Michigan

The American federal system currently is being intensively surveyed and analyzed by a national Commission on Intergovernmental Relations which was established by an act of Congress in July; 1953. The Commisssion is comprised of twenty five members, fifteen appointed by the President, five by the Speaker of the House of Representatives, and five by the President of the Senate (the Vice-President). The membership includes ten congressmen, four state governors, three federal department secretaries, and eight distinguished citizens. The Commission was popularly named the Manion Commission until March, 1954, when the chairman, Clarence Manion, publicist and sometime dean of the Notre Dame University law school, was summarily discharged by the White House (resignation requested).[1]) The Commission got off to a very slow start and was just beginning to function by March 1, 1954, the original reporting deadline. Consequently its life has been extended an additional year.[2])

The reasons for the Commission's creation and its general mission were succinctly stated by the constituent act as follows:

> Because any existing confusion and wasteful duplication of functions and administration pose a threat to the objectives of programs of the Federal Government shared in by the States, including their political subdivisions, because the activity of the Federal Government has been extended into many fields which, under our constitutional system, may be the primary interest and obligation of the several States and the subdivisions thereof, and because of the resulting complexity to intergovernmental relations, it is necessary to study the proper role of the Federal Government in relation to the States and their political subdivisions, with respect to such fields, to the end that these relations may be clearly defined and the functions concerned may be allocated to their proper jurisdiction. It is further necessary that intergovernmental fiscal relations be so adjusted that each level of government discharges the

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1) The White House did not explain the unceremonious deposition. Press speculation mentioned three reasons: Manion's active advocacy of the "Bricker Amendment" proposal to restrict the treaty powers of the President, inattention to Commission work, and that Manion's highly articulate and ultraconservative views were embarassing the Eisenhower administration.

2) P. L. 302, 83rd Cong., 2nd Sess.

functions which belong within its jurisdiction in a sound and effective manner. [3])

In addition to the foregoing general mandate, the Commission was given one explicit direction:

> The Commission shall study and investigate all of the present activities in which Federal aid is extended to State and local governments, the interrelationships of the financing of such aid, and the sources of the financing of governmental programs. The Commission shall determine and report whether there is justification for Federal aid in the various fields in which Federal aid is extended; whether there are fields in which Federal aid should be extended; whether Federal control with respect to these activities should be limited, and, if so, to what extent; whether Federal aid should be limited to cases of need; and all other matters incident to such Federal aid, including the ability of the Federal Government and the States to finance activities of this nature. [3])

It may be observed that the mandate of the Commission, while quite extensive, by no means embraces the alpha and omega of vertical relationships in the American federal system. It does not touch, except tangentially, most of the formal and fundamental Constitutional relationships, which apparently are beyond controversy. Nor does it cover many of the modern administrative relationships, the myriad aspects of administrative cooperation including what has been appropriately termed the "information power" of the federal (national) government. The mandate clearly shows that the most prominent aspects of American federal relations today are the fiscal relations and functional allocations. Hence the Commission is assigned three study topics: tax coordination including tax immunity questions, grants-in-aid, and the allocation of functions between jurisdictions. Manifestly these are siamese triplets which cannot adequately be dealt with independently. The reference to functional allocation reflects the venerable but anachronistic belief that all the functions or modern government may be assigned exclusively to one of the three levels of American government.

At this writing, the "ex-Manion Commission" still is headless. This embarrassing condition, however, has not been fatal to the Commission, because it is functioning in what has become the standard pattern for such official study commissions. That is, the actual study is conducted by a staff of social scientists who in turn parcel out fractions of the work to various research agencies, consultant firms, and professors on a contractual basis. The latter units, called "task forces" by the recent federal "Hoover Commission", submit analyses and recommendations to the research staff director who reviews and synthesizes them. The Commission reviews the research reports — sometimes cursorily — and endorses or rejects the specific recommendations. The approved recommendations constitue the commission's report, to which are appended

[3]) P. L. 109, 83rd Cong., 1st Sess.; 67 Stat. 145.

some or all of the survey documents. The functions of the commission members are to meet occasionally, to consider the research reports, to represent the views of the major interest groups concerned, to lend prestige to the project, and particularly to sell, colloquially speaking, the recommendations to the legislative body and the public. [4]) The selection and composition of the Commission and its *modus operandi* manifestly are patterned after its illustrious predecessor, the Commission on Organization of the Executive Branch of the Government, 1947-1949, better known as the "Hoover Commission".

The COSGO Study

This is the second recent official survey of the "state of the union." The "Hoover Commission" contracted with the secretariat of the Council of State Governments (COSGO) to survey "federal-state relations." The report of that agency, while distincly reflective of the COSGO viewpoint, presented an excellent description and analysis of the historical evolution of federal relations and of the principal mechanisms and problems. [5]) On the basis of the COSGO survey, the brief "Hoover Commission" report layed down five simple, but not easily attainable, recommendations:

1. An appraisal of government functions to determine proper jurisdictional allocations.
2. A revision of tax systems-national, state, and local-looking toward more adequate state and local revenue resources.
3. That grant funds be subject to the standard budgetary processes of national and state governments.
4. "That the grant-in-aid plan and program be clarified and systematized."
5. And that there be established a continuing agency on federal-state relations, to furnish information and guidance for the achievement of the foregoing objectives. [6])

The similarity between those recommendations and the mandate of the new Commission indicates that the former's report on federal-state relations produced slight tangible results. The conspicious lack of accomplishment may be attributable to the fact that this phase was a minor theme and also that the broad, general recommendations (about as specific as being for virtue and against sin) were long

[4]) This is the pattern of congressional and legislative interim committees and of the recent rash of state "little Hoover" commissions.

[5]) *Federal-State Relations.* Sen. Doc. No. 81, 81st Cong. 1st Sess. The same study was the basis for the volume *Federal Grants-In-Aid.* Chicago: Council of State Governments, 1949.

[6]) Comm. on Organ. of the Exec. Branch, *Overseas Administration, Federal-State Relations, Federal Research*, pp. 35-37.

term matters. Possibly another reason was the very dubious authority for the survey. As two dissenting members of the Commission correctly noted, the function of the Commission was to study the national administrative structure, not intergovernmental relations. [7] The only obvious results of the "Hoover Commission's *ultra vires* excursion into federalism were to furnish propaganda ammunition for the critics of federal grants-in-aid and to add support to the proposal for a federal relations commission, a proposal which has been vigorously promoted by COSGO since about 1946.

An adequate consideration of each phase of the mandate of the Commission on Intergovernmental Relations would greatly exceed the space of an article. Hence the balance of this article is directed to one of the Commission's assignments, the major one: federal grants-in-aid, with only incidental references to other phases.

The Attack on Federal Grants

Sometime ago it appeared that the old controversy over the wisdom and validity of grants-in-aid was about over, and that future debate would center on the wisdom of specific programs, however within the last few years the issue has been revided by a terrific propaganda campain which is lambasting indiscriminately all federal grants. This campaign is emanating from two major sources: some politicians and officials, particularly state officers, and business organizations — the trade associations, the chambers of commerce, and various organizations like the Committe for Constitutional Government, the Tax Foundation, and taxpayer groups. The general tenor of P. L. 109 clearly demonstrates that creation of the Intergovernmental Relations Commission constitutes a major victory for the foes of federal grants, who are confident that the Commission will propose drastic reductions in federal grants.

A sample of the anti-federal aid propaganda is a resolution which has been making the rounds of the state legislatures, calling upon them to "inform Congress that we propose to tax ourselves, and take care of ourselves, that we want no more subsidies, doles, and paternalism, and that we wish to wrest control of our domestic affairs from the bureaucracy in Washington and bring it back within the boundaries of the state." [8] Innumerable newspaper and magazine editorials and articles have appeared with variations on the theme "Invasion of States' Rights — Federal Grants-in-Aid." [9]

Another specimen is a campaign by the Indianapolis Chamber

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7) *Ibid.*, p. 25.

8) *Chicago Tribune*, March 6, 1949. Passed by the Michigan and Indiana legislatures in 1947. *Michigan House Journal*, 1947, pp. 444, 647.

9) Editorial title, *Detroit Free Press*, March 3, 1953.

of Commerce against federal aid to education. Generously assisted by the Indianapolis dailies, the Chamber is saving Indiana from the unspeakable tyranny of "federal control of education." *Inter alia,* it is circulating a college president among parent-teachers associations to inform them of the hideous menace and to elicit proper resolutions to Congress and the national P. T. A.[10]) The Chamber's publicity does not emphasize these facts: the tremendous disparity between educational opportuity in Indiana and that in Mississippi or Alabama, that federal control of education is not inherent in federal aid to general education, that the late Senator Robert Taft was co-sponser of such a bill, that the currently proposed aid for school construction would entail very slight and only temporary federal supervision, and that federal aid to education has existed on a substantial scale since the Smith-Hughes (vocational education) Act of 1917.

Criticism of State Officials

The criticism of state officials, often manifested at meetings of state officials, usually is more restrained than the examples above, although it sometimes has a Dixiecrat flavor. Pinned down, most such critics will concede that some federal aid is good, and then continue to complain about the arbitrariness of federal officials. Frequently the criticism is self-contradictory. That is, often grant formulae are criticized as too complex and inflexible, and in the next breath other grants are condemned for vesting excessive discretion in federal administrators. Also, it often constitutes generalization based on inadequate sampling — failing to see the woods for the trees. Often the arbitrariness criticized stems from the necessity of uniform procedure. The alternative method proposed by a critical state official may be as good as that prescribed by the federal agency, but it cannot be done 48 different ways. Many of the criticisms are valid and can contribute to improvements in grant administration. The criticism from state officials proceeds from mixed motives. Partially it is constructive criticism intended to remedy specific defects in grant distribution fromulae and administrative procedures. Often, however, it is tinged with parochialism, and official self-esteem and self-interest. It is interesting how an ex-state politician sometimes acquires a national outlook when he migrates to Washington. Finally it should be noted that many state officials, in every state, are not hyper-critical. In general, the professional administrators directly concerned with the operation

[10]) See Indiana P. T. A. Members Study Group on Federal Aid to Education, *Manual for Workers and Speakers,* a handy assortment of anti-federal aid speeches with choice quotations.

of joint state-federal programs are favorable to federal grants, often staunch advocates. Criticism, particularly the unbridled kind, generally proceeds from elective political officials who have little or no first hand contact with grant programs. Indeed there is distinctly an inverse correlation between the volume of criticism and the amount of contact with and knowledge of federal grant programs. [11])

The propaganda of the chambers of commerce and other business groups usually is dressed up in clarion appeals to save the American federal system from a horrendous "centralization" which has eaten up our liberties, reduced our once "sovereign states" to pawns, rendered the citizen helpless, and now is poised to black out in one fell swoop all self-government and civil liberty. "This is your 3 billion dollar problem, but more important is a problem which, if not solved, threatens the principle of self-government and responsible home rule within our federal system of government. Urge your Washington lawmakers to..." [12])

This propaganda would appear to be motivated by considerations more tangible than esoteric federalist theory. The basic objectives are: to reduce the level of government services in general and specifically to cut those services financed by federal grants, and finally, it is fervently hoped, to end the long-term trend of expanding government functions. The strategy is based on the correct assumptions that if many of these functions can be divested of federal financial support some may cease entirely in some states and many will languish from lack of funds. And furthermore a strong precedent will thereby be established against federal government "meddling" in such "local" matters. If it were likely that any reduction of federal grants would by fully offset by increased state and local expenditures for these government services, there would be less effort expended in anti-federal aid propaganda.

These assumptions are correct, because the taxing capacity of state and local governments is so inferior to that of the national government. Also, the influence of business groups over governmental policy is greater at the state and local levels than nationally. Reforms or new government services can be blocked more readily in 48 legislatures than in one Congress. Also, on occasion a state government can be bought (This occurred in Michgan as recently as 1943.), but Congress is too large for that. There is a simple reason why business groups have become passionate advocates of

11) Patently administrators have vested interests in the joint programs, but this is not the exclusive nor principal determinant of their respect for federal grants.

12) "They're Your Dollars", *Missouri Public Expenditure Survey*, February, 1952, p. 8.

'states rights' and 'home rule': in the past two decades they have not been able to exert in the national government the proponderant influence which they wield in state and municipal governments. The chambers of commerce have no quarrel with the Lasswellian definition of politics: "who gets what, when, and where."

The Scope of Federal Grants-In-Aid

The stakes in this propaganda campaign are indicated in the following tabulation of the grant programs operative in 1952. The 40 programs (the precise number depends upon classification and units selected) fall into the five functional groups listed. Although farmers were the earliest, and still are major, beneficiaries of federal grants programs, the scope of federal grants has broadened steadily since the enactment of the Federal Aid Road Act of 1916 and the Smith-Hughes Vocational Education Act of 1917. The Social Security Act of 1935, resting very largely upon the grant-in-aid instrumentality, established social welfare as the paramount grant-in-aid function. In fiscal 1952, social welfare programs totaled $ 1.7 billion, 68 % of the $ 2.5 billion allocated to all programs. The foremost single item is public assistance (old age assistance, aid to dependent children, blind, and disabled) amounting to $ 1.2 billion, 47 % of the total. Second in size are the post-war highway programs which constituted $ 4 billion, 17 % of the total. This tabulation indicates the important relationship between the grant-in-aid device and the development of governmental services in the United States, and to the "New Deal", the "positive state", the "social service state", or the "welfare state". These functions are vital to our domestic welfare and; if the grants are not suspended, are functions for which the public is likely to demand more rather than less expenditures in the future.

SUMMARY OF FEDERAL GRANTS-IN-AID
TO STATE, TERRITORIAL, AND LOCAL GOVERNMENTS *)

Function Program	Established	Fiscal 1951-52 (millions)
AGRICULTURE AND NATURAL RECOURCES:		
Agricultural Extension Work	1907	$ 32
Experiment Stations	1887	12
Marketing Research	1947	1
Surplus Commodities Distribution	1934	39
Forest Management and Fire Control	1911	10
Wildlife Restoration	1939	10
Sub-Total		$ 104

Function Program	Established	Fiscal 1951-52 (millions)	
Sub-Total			$ 104
EDUCATION AND GENERAL RESEARCH:			
Vocational Education	1917	$ 26	
Land Grant Colleges	1890	5	
Aid to Defense Areas	1950	191	
Sub-Total			$ 122
HOUSING AND COMMUNITY DEVELOPMENT:			
Low Rent Housing-Contributions	1937	$ 13	
Civil Defense	1950	1	
Disaster Relief	—	16	
Other	—	4	
Sub-Total			$ 34
SOCIAL SECURITY, WELFARE, AND HEALTH:			
Employment Security Administration	1935	$ 187	
Public Assistance	1935	1,178	
Maternal and Child Welfare	1921	31	
General Public Health	1935	14	
Disease Control: Cancer, Heart, V.D., Mental, T.E.	1945	22	
Hospital Survey and Construction	1946	124	
School Lunches	1946	84	
Veterans Services and Benefits	1888	7	
Other	—	21	
Sub-Total			$ 1,668
TRANSPORTATION AND COMMUNICATION:			
Highways	1916	$ 414	
Airports	1946	34	
Sub-Total			$ 448
GENERAL GOVERNMENT:			
D.C., Samoa, Guam, Trust Territories	—		$ 17
Total			$ 2,393

*)Source: *Budget of the United States, 1954*, pp. 1132-33.

Myths

Those who criticize the "myth of grants-in-aid" are vigorously cultivating an assortment of myths, including:

1. That the growth of federal aid is a manifestation of the insatiable appetite of federal "fair deal" bureaucrats for power — a part of their scheme for dictatorship. This myth is oblivious of the facts that grant-in-aid programs are established and their levels of operation are determined by Cogress.

2. That federal-aid programs are administered by wasteful Washington bureaucrats. Actually 90 % of the administration, and any waste, is by state government agencies.

3. That local and state governments are democratic, responsive to public opinion, and efficient; while the national government is irresponsible, tyrannical, wasteful, and inefficient. Actually there is no basis for such generalizations; however, the available evidence appears to favor the national government. Finally, this myth is irrelevant, since the grant programs involve all levels of government.

4. That federal grant programs are wasteful. The available evidence points to the contrary. Students are generally agreed that the federal influence has improved the quality of state administration. For example, many states, including Michgan, never heard of civil service until they were obliged to apply merit principles in certain state agencies as a prerequisite for federal aid. Even today in about half of the states civil service covers only those agencies administering federal aid. [13])

On this point, the recent "Hoover Commission" said: "The cooperative method has improved the administration of many state activities. National administrative standards, as in highway and welfare programs, and national advice, as in police work, have done much to increase the professional skill and effectiveness of state administrators". [14])

5. That all federal grants-in-aid produce centralization, wasteful duplication, and top-heavy bureaucracy. Although some centralization is inherent in the grant program, this generalization is untenable, because (a) the alternative to the grant pattern in some cases would be direct and exclusive federal administration, and (b) some grant programs represent distinct efforts to decentralize and to avert duplications.

The employment securety and federal highway grant programs illustrate the utility of the grant-in-aid as a decentralizing instrument. Under the Constitution, the federal government has the specific responsibility "to establish post offices and post roads". Given the current scope of rural mail service, this would justify direct federal administration of nearly every road in the nation. However, the federal governments has elected to achieve a national system of highways by the use of grants to states. Similarly Congress used the grant- in-aid device, coupled with the tax offset, to induce states to establish employment security programs, rather than establish such under direct federal administration.

Again, in 1947, Congress decided that the 'farm problem' should be attacked by a very extensive program of marketing analysis, research, and education of processors and farmers. Congress could

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13) See tabulations in biennial editions of *Book of the States.*

14) *Overseas Administration, Federal-State Relations, Federal, Research,* pp. 30-41 (March, 1949).

have vested exclusive responsibility for this large, long-range program in the U.S.D.A., but instead it decided to use the existing state colleges of agriculture, experiment stations, and extension services (themselves established by federal grants). Precisely, the same story applies to civil defense. Centralization and decentralization are not mutually exclusive trends.

The 1949 study by the secretariat of the Council of State Governments, an agency which hardly could be accused of partiality toward federal aid, stated: "The grants have been successful in (1) providing a basis for the achievement of broad national purposes and (2) providing a fiscal and administrative mechanism characterized by National-State cooperation and the division of responsibilities in the shared functions. The grants, therefore, have avoided both overweening centralization and the inadequacy of complete decentralization in large-scale programs." [15])

6. That federal grants have led the national government to increase greatly its taxes, thereby making it difficult for states to raise revenue, and thus hamstringing state and local government. The fallacy in this logic is that federal aid has not been a significant cause of the increase in federal taxation. Except in the period of the depression Thirties, grants have never constituted more than 6 per cent of the national budget, and were only 4 % of the 1952 budget. Actually, World War II expenditures and the postwar defense program have been responsible for the high federal taxation. [16]) As Senator Paul Douglas has remarked, this isn't the welfare state; it is the warfare state.

7. That federal grants-in-aid are all a hoax, a "losing game", because federal tax collections in X State exceed X State receipts for "so-called grants-in-aid." [17]) This favorite theme of newspaper editorials is ludicrously absurd. Patently aggregate federal grants could equal federal tax collections only if the federal government did nothing but distribute federal grants. The federal government has other and far more expensive functions. This type of arithmetic has no validity, because federal grants, exept for the fish and wildlife conservations programs, are appropriated from the general fund rather than from dedicated revenues. [18])

8. That federal grants are destructive of state and local govern-

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15) *Op. cit.*, p. 47.

16) Committee on Expenditures in the Executive Departments, *Intergovernmental Relationships*. Sen. Rep. No. 94, 82d Cong., 1st Sess., pp. 3-7.

17) "State Pays Billions But Collects Only Millions in Grants", *State Journal* (Lansing, Mich.), May 14, 1952, p. 6.

18) Notwithstanding the efforts to tie highway grants to the level of revenue from the federal tax on gasoline. Highway interests have promoted popular misunderstanding on this point.

ment. On this point, Professor Joseph P. Harris states: "There is a good deal of misinformation and misconceptions about the alleged decline of the states and the usurpation of state and municipal functions by the federal government. The facts are that the state governments have never before played such an active, vital role in the life of the states. The whole character of state government has been radically changed during the last quarter of a century. Prior to the first World War, the states had only rudimentary departments or agencies dealing with highways, health, welfare, education, labor, agriculture, and the regulation of utilities and business. Unemployment compensation, public employment offices, old-age assistance were unknown. In all these fields today, the state is rendering vital services to its citizens.")[19]

Basic Reasons For Grants-In-Aid

There are various reasons for each of the existing grant programs, however there are some fundamental reasons, common to all programs.

1. The foremost reason is the necessity of adjustment and growth of our organic Constitution. "Its fundamental raison d'être is that the legal division of power between the nation and the states, as laid down in the strict theory of the Constitution, no longer fits modern conditions and has, in fact, for some time been antiquated. The subsidy system is a device whereby Congress, through its spending power, transfers to national control numerous state matters of national interest and thus adjusts governmental arrangements to the actual needs of modern conditions." [20])

2. Related to the foregoing cause are those economic, social, and ethical forces which have necessitated frequent adjustment of our constitutional arrangements: the transition from a local and agrarian economy to a national and international economy, from an economy characterized by dispersion of economic power to one characterized by concentration of power, from an economy of exploitation to an economy of conservation. As Frederic Ogg wrote: "Let social and economic interests develop to a point where they are no longer bounded by state lines, but are of regional or national concern, and any attempt to perpetuate a monopoly of state regulation not only is hopeless, but if persisted in, is certain to precipitate damaging conflicts between state and national power." [21])

3. The growing magnitude of governmental problems and res-

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19) "The States and the Cities", *State Government,* April, 1945, p. 72.

20) John Mabry Mathews, *The American Constitutional System,* 2nd ed., p. 66.

21) Ogg and Ray, *Introduction to American Government,* 8th ed., p. 108.

ponsibilities and the growing interdependence of society has necessitated a parallel growth and interdependence in government. As Charles Beard once remarked, "There is not a single major problem of the modern city which can be handled exclusively by the city." Hence we are obliged to replace 19th century competitive federalism by 20th century cooperative federalism — although some people refuse to recognize the time of day. On this point, the COSGO study observed, "The grant programs have applied a cooperative method for achieving results that might never have been achieved if the grant technique had not been developed." [22])

4. Concurrently, many governmental responsibilities have outrun the financial capacity of many state and local governments. "The revenue-raising ability of the federal governments dwarfs that of the states. The success of state governments in assisting local units depends in great part upon the success of joint state-federal fiscal transactions." [23]) As Professor Clarence Heer has stated, there are four major tests or specifications of a good tax system: fiscal adequacy, equity, administrative efficiency, and economic consequences. On each of these tests the federal tax system scores higher than state and local tax systems. [24]) A major factor in the present controversy is a desire to shift the burden of the services supported by federal progressive income taxes to the less adequate state treasuries, which are derived largely from sales taxes, general and selective. [25])

5. Related to the preceding point is the great variation in wealth as between regions and states. In 1952 average per capita incomes ranged from $ 2,260 in Delaware to $ 818 in Mississippi. The fact that the United States has great economic inequality has been perhaps the foremost reason for the development of federal grants.

6. Very significant has been the emergence of the ethical concept of a "national minimum", i.e., the view that for many vital government functions there should be certain minimum standards of service throughout the nation. Nearly every grant program is an expression of this growing attitude, particularly the welfare programs for children, handicapped, and aged. The proponents of federal grants are appalled that a school child in New York receives $ 295 of education annually while a child in Mississippi receives

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22) *Op. cit.*, p. 47.

23) *State-Local Relations,* Report of Committee, Council of State Governments, 1946, p. 137.

24) The Advisory Committee on Education, *Federal Aid and the Tax Problem,* particularly chs. 4-6 (1939).

25) Related to this is the U.S. Chamber of Commerce campaign to get old age assistance paid from the O.A.S.I. Fund, thereby shifting the burden from progressive income taxes to the weekly pay checks of manual and clerical workers.

$ 80 worth (and Negro children less than that).[26]) The "national minimum" concept reflects economic inequality and increasing social interdependence, and is the application of "my brother's keeper" on a national scale.[27]) "By and large, the grants have been the greatest single lever within the area of National-State relations capable of working toward a minimum standard of public services throughout the country. Other Federal commonwealths have employed the grant system for purposes of equalization... but none has attempted it on the geographical, social, and fiscal scale of the United States."[28])

7. A not insignificant factor has been the failure of state and local governments in too many instances to provide the services desired by the people. Some of such defaults are attributable to limited fiscal capacity, others represent inhibitions arising from interstate economic competition, and some are downright disregard of popular needs. Whenever state governments default, for whatever reason, the people inevitably turn to the national government. And in so doing they are not shiftless mendicants, abdicating liberty for "paternalism"; they simply are using their common instrumentality for quite legitimate purposes.

Defects and Disadvantages

The grant-in-aid is not a panacea, the device is not the best tool for every problem, and unquestionably there is room for improvement in the present structure. There are bound to be disadvantages and defects, offering ample ground for legitimate criticism. The most valid criticisms appear to be:

1. The absence of system, deriving from the fact that the programs have been adopted piece-meal (necessarily). The present structure does lack coordination, some vital services are ommitted, and some programs need remodeling.

2. In some cases, grants have distorted state expenditure and service patterns where non-grant programs have been under-

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26) Per pupil expenditures in 1949-50 (latest available data). *Statistics of State School Systems,* ch. 2, Biennial Survey of Education in the United States, 1948-50 (Federal Security Agency, 1953).

27) Relevant is a statement of Governor Adlai Stevenson: "The more we expand our economy, the more our problems will become national in scope. The educational and medical advantages given to Negro youth in the South, for example, vitally affect us in Illinois. Many of those youths will come to our state and we will have to bear the burden to the extent that they are badly educated or in poor health. No amount of violent pleading for 'states rights' can possibly stop the ever-increasing scope of these national problems." "Reorganization From the State Point of View", *Public Administration Review,* vol. 10 (1950), p. 5.

28) *Federal-State Relations,* p. 48.

nourished in order to use limited resources for matching grants. This has been most conspicuous in the welfare programs of some low-income southern states which have channelled nearly all of the state welfare funds into the four categorical aids, at the expense of general relief. [29]) Likewise some states at times have deprived schools, health, and welfare in order to use available federal highway contruction grants. However, a recent survey indicates that expenditure and service patterns in Michigan have not been seriously distorted by federal aid carrots. [30])

3. The distribution formulae of many of the older programs should be amended to include the factor of relative state fiscal capacity, in order to promote geographical equalization and national minima.

4. Congress ought to require higher standards of state administration of some programs. For example, highway departments, supported about 50 % by federal grants, ought not be patronage machines as they are in Indiana Illinois, and some other states. Probably some state officials and others would scream dictatorship, as witness the recent welfare episode.

5. Perhaps in some areas there should be less specific and more general grants, for example in the area of public health. However, one must recognize that the nation has the duty of seeing that grants are used for the statutory purposes. This is a case where we cannot have our cake and eat it too.

6. The present arrangement of a federal grant of 100 % of the administrative cost of Employment Security is particularly questionable. Since the states bear none of the cost, most state legislatures tend to regard the agencies as exclusively federal, and see no reason to budget their funds or to exercise any surveillance. Only in a few states is the Employment Security agency integrated into the state's administrative and fiscal systems. Elsewhere it is an independent principality. The proper alternative arrangement is open to debate. Strong arguments can be advanced for (1) complete federal administration, (2) 50-50 financing, (3) repeal of the federal tax and 100 % state financing under the umbrella of the federal tax offset, and variations thereon. [31])

7. State agencies administering federal grants sometimes tend to be autonomous island, resisting executive control and direction. This is a genuine problem, but not an insuperable one. Close relationships between the state agency and its opposite number in

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29) *Ibid.*, pp. 53-55.

30) Howard D. Hamilton, *Federal Grants in Michigan, 1941-1953.* Lansing: Michigan Department of Administration, 1953.

31) See COSGO, *Federal Grants-In-Aid,* pp. 129-147.

Washington need not preclude state direction. Much progress has been made on this problem. In Michgan, for example, all of the federal aid programs are budgeted fairly well except three, and those exceptions are due to local factors, not Washington interference.

Conclusion

The establishment of the Commission on Intergovernmental Relations is the result principally of two concurrent campaigns: the intense anti-federal aid campaign ant the repeated demands of state and local officials for more "tax coordination." This was demonstrated by the lobbyists who appeared before the House committee to promote the bill: representatives of the Uuited States Chamber of Commerce, the Virginia Chamber of Commerce, the National Association of Manufacturers, the National Association of County Officers, the Governors Conference, and the Council of State Governments. [32])

The concern of state officials stems in large measure from the fiscal difficulties of state governments since World War II, despite the phenomenal prosperity. State governments have been caught in the middle between the increasing costs of state services and demands of local units for state assistance on the one hand and the high federal taxes on the other hand. The usual economic and constitutional limitations on state revenue capacity have been aggravated by the extraordinary level of federal taxes. The most frequent explicit demands for "tax coordination" are that the federal government abandon the gasoline tax and the excise taxes enacted during the last war. [33])

If the Commission should exert its authority to recommend a new federal grant program of any importance, e.g., general education, its sponsers would be sorely chagrined. The promoters of P. L. 109 have made unmistakeably clear what is expected of the Commission. The membership of the Commission is such that it should produce the right recommendations. [34]) In fact, one member

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[32]) *Congressional Record,* vol. 99, p. 6291.

[33]) Repeal of the gasoline tax generally is coupled with the cessation of federal highway grants. These twin proposals are opposed by the National Association of State Highway Officials, which favors the existing arrangements with an increase in grants up to the level of the yield of the federal gasoline tax. Passage in 1954 of an act to raise highway grants beginning in 1955 to levels approximating the gasoline tax yield indicates that the Eisenhower administration favors that policy.

[34]) This is not particularly a criticism of the appointers. Previous presidential and congressional study committees have been designed to get the proper recommendations. Such is the genius of the special study committee device.

celebrated his appointment with a press conference about the wicked federal grants. Ex-Chairman Manion has been one of the most vocal critics of all federal "subsidies", and also advocates that the National Government liquidate the TVA. One may anticipate that the Commission will produce the proper recommendations with some cooperation from the "new Hoover Commission", the Commission on Governmental Operations, with its new authority to recommend the cessation of programs in addition to administrative changes. [35])

No one would deny that American federalism is beyond need of innovation nor that the Commission may be generally constructive. Congress, the preceding administration, and the Council of State Governments recently have sponsered extensive and valuable surveys of tax coordination and federal grants. [36]) Indubitably the Commission's staff will produce valuable documents, although it is difficult to see how its research or proposals can be very original. However one may raise the following queries relative to the Commission: Are additional studies needed upon top of the other recent studies? Has the slow progress in tax coordination been attributable to a lack of information, or to the evil motives of Congress or the late administration? Or has it been because of objective conditions? The experience of the Eisenhower administration with the picayune admissions tax illustrates how much easier it is to talk than to do tax coordination. Also, is it realistic to think of tax coordination primarily in terms of separation of tax sources, i.e., that each type of tax should be used by only one jurisdictional level? Are the states, for example, interested in relinquishing the corporate and personal income taxes? Is the proposed federal sales tax, which is being urged by some of the sponsers of P. L. 109, an example of tax coordination? If federal grants are slashed, are *all* of the states ready and able to fill the gaps? Do the record and the present condition of state and local finance so indicate? Is it desirable to shift the support of these services from progressive taxes to regressive taxes? Do tax coordination adjustments and extensive reductions of federal grants involve only structural questions, or substantive policy questions as well? Are the genesis and composition of the Commission such as to assure an objective review?

Our federal grants pattern is not, and should not be, static or completely uniform. Possibly, in addition to modifications suggested above, we should experiment with block grants, as in the United

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35) Enacted the same day as the Intergovernmental Relations Commission Act., P. L. 108, 83d Cong., 1st Sess.; 67 Stat. 142.

36) Notably the COSGO study, the COSGO, *Federal Grants-In-Aid*, and the study by the Tax Advisory Staff of the Secretary of the Treasury, *Federal-State-Local Tax Coordination* (Washington, 1952).

Kingdom and more recently in New York and Ontario.[37]) Probably federal aid should be withdrawn from some programs, as for example, the annual grants to agricultural colleges. If a program of aid to general education should be adopted, perhaps the vocational education grants could be eliminated. While the system has some inherent disadvantages as well as some unnecessary defects, in the aggregate they do not justify indiscriminate fulminations. Part of the current propaganda barrage appeads to be a smokescreen for a flanking attack on the particular programs supported by federal grants. On balance, the grant-in-aid has been an invaluable instrument for adapting the American federal system of 1789 to the society of 1954; for furnishing the 125,000 units of government with the collective strength and coodination to begin to cope with the problems of an atomic age; and for the attainment of a substantial measure of social justice.

37) Most of the cogent arguments advanced for block grants in state-municipal relations are equally appropriate to federal relations, although more difficult of attainment. See Simeon Leland, *Needed New Municipal Revenues*. Washington: U.S. Conference of Mayors, 1954.

LA COMMISSION DES ETATS-UNIS POUR LES RELATIONS INTERGOUVERNEMENTALES ET LES ALLOCATIONS

PAR HOWARD D. HAMILTON

L'actuel système fédéral américain est soumis à l'examen et à l'analyse approfondie d'une Commission Nationale pour les Relations Intergouvernementales établie par un acte du Congrès en juillet 1953. La Commission est composée de vingt-cinq membres dont quinze sont nommés par le Président, cinq par le speaker de la Chambre des Représentants, et cinq par le Président du Sénat (le Vice-Président). On y compte dix Délégués du Congrès, 4 Gouverneurs d'Etats, 3 Secrétaires du Département Fédéral et huit personnalités.

La raison d'être de la Commission et sa mission en général, ont été définies succinctement par l'acte constitutif dans les termes suivants:

Toute confusion établie et tout dédoublement inutile de fonctions et d'administration menacent les objectifs des programmes du Gouvernement Fédéral ainsi que des Etats et de leurs subdivisions politiques; l'activité du Gouvernement Fédéral s'est étendue à plusieurs domaines qui, sous notre régime constitutionnel, peuvent constituer des charges et des intérêts primordiaux pour plusieurs Etats et leurs subdivisions; enfin la complexité des relations intergouvernementales qui en résulte rend nécessaire d'étudier le rôle propre du Gouvernement Fédéral par rapport aux Etats et à leurs subdivisions politiques dans de tels domaines afin que leurs relations puissent être clairement déterminées et que les fonctions susénoncées puissent être réservées à l'autorité compétente. Il faut de plus que les relations fiscales intergouvernementales soient réglées de telle façon qu'à chaque degré l'autorité gouvernementale s'acquitte des fonctions qui sont de sa compétence d'une manière correcte et efficace.

Outre le mandat général ci-dessus la Commission reçut une directive formelle:

La Commission devra procéder à l'examen de toutes les activités en cours où les Gouvernements d'Etats et les autorités locales reçoivent une aide fédérale, ainsi que des rapports entre le financement de cette aide et les ressources financières des programmes gouvernementaux. La Commission décidera si l'aide fédérale se justifie dans les différents domaines de son intervention, s'il y a d'autres domaines auxquels l'aide fédérale devrait être étendue, si le contrôle fédéral de ces activités devrait être limité et, dans l'affirmative, à quel point, si l'aide fédérale devrait être limitée aux cas de nécessité, et tous autres objets touchant à cette aide fédérale y compris la capacité du Gouvernement Fédéral et des Etats de financer des activités de cette nature [1].

l'Etude du COSGO. (Council of State Governments)

Il s'agit ici du second rapport officiel récent sur „l'état de

[1] P.L. 109, 83rd Cong., Ist Sess.; 67 Stat. 145.

l'Union" pour l'étude des relations entre le Gouvernement Fédéral et les Etats. La „Commision Hoover" a pris contact avec le Secrétariat du Conseil des Gouvernements d'Etats (COSGO). Le rapport de cette Commission quoique reflètant fidèlement le point de vue du COSGO, a présenté une excellente analyse de l'évolution historique des relations fédérales et de leurs mécanismes et problèmes principaux [2]).

En se fondant sur l'étude du COSGO le bref rapport de la „Commission Hoover" conclut à cinq recommandations simples, mais malaisées à exécuter:

1. Une estimation du coût des fonctions gouvernementales afin de déterminer équitablement les allocations qui ne seraient accordées que par une juridiction.
2. Une revision des systèmes d'impôts sur le plan tant fédéral et des Etats, que local, en vue de trouver des sources de revenus mieux adaptées pour les Etats et localités.
3. Que les allocations soient soumises aux règles budgétaires normales du Gouvernement fédéral et des Gouvernements d'Etats.
4. Que le programme des allocations soit clarifié et systematisé.
5. Et qu'on établisse une Commission permanente des relations entre le Gouvernement fédéral et les Etats, qui fournirait des reinseignements et des directives pour l'accomplissement des précédentes recommandations [3]).

Un examen adéquat de chaque aspect de la mission de la Commission des relations intergouvernementales dépasserait de beaucoup l'espace d'un article. Dans ce qui va suivre nous n'en traiterons donc qu'un seul, le plus important, les allocations fédérales et il ne sera fait allusion aux autres qu'en passant.

La Critique des Allocations fédérales

Il y a quelque temps il semblait que la vielle controverse sur la sagesse et le bien-fondé des allocations en général touchait à sa fin et qu'à l'avenir les débats se concentreraient sur l'utilité des programmes particuliers. Cependant la question a resurgi ces dernières années dans une formidable campagne de propaganda qui attaque indistinctement toutes les allocations fédérales. Cette campagne trouve sa source principalement de deux côtés:

1) certains hommes politiques et fonctionnaires d'Etats, et

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[2]) *Federal-State Relations.* Sen. Doc. n° 81st Cong. Ist Sess. La même étude fut la base du volume Federal Grants-in-Aid. Chicago: Council of State Governments, 1949.

[3]) Comm. on Organ. of the Exec. Branch, *Overseas Administration, Federal-State Relations, Federal Research,* pp. 35-37.

2) certaines associations d'affaires: les syndicats, chambres de commerce et autres organismes comme les groupements de contribuables.

L'idée générale de l'acte P.L. 109 montre clairement que l'instauration de la Commission est une victoire importante pour les adversaires des allocations fédérales lesquels croient qu'lle en proposera des réductions drastiques.

Critique par les Fonctionnaires d'Etat

Les critiques des fonctionnaires, souvent exprimées dans leurs réunions, sont d'habitude assez modérées malgré de temps en temps une allure „Dixiecrat". La plupart de ces critiques admettront franchement que l'aide fédérale a du bon, mais ensuite ils continueront à se plaindre de l'arbitraire des fonctionnaires fédéraux. Quelquefois la critique est juste et peut contribuer au progrès de l'administration des allocations. Enfin il faut noter qu'il y a beaucoup de fonctionnaires dans tous les Etats qui n'exagèrent pas dans leurs critiques. En général les Administrateurs de profession directement intéressés à la mise en oeuvre de programmes communs à l'Etat fédéral et aux Etats sont favorables aux allocations fédérales. La critique exagérée provient le plus souvent de fonctionnaires politiques élus qui n'ont pas de contacts directs avec ces programmes, ou très peu.

La propagande des Chambres de Commerce et d'autres groupes d'hommes d'affaires consiste d'habitude en appels claironnants pour sauver le système fédéral américain d'une „centralisation" effroyable qui aurait dévoré nos libertés, asservi nos Etats autrefois „souverains", rendu nos citoyens sans défense, et serait maintenant sur le point de nous arracher d'un seul coup toute liberté politique et civile. Cette propaganda paraît motivée par des considérations plus terre à terre que la pure théorie fédérale. Ses objectifs principaux sont: réduire l'ampleur des services gouvernementaux en général, particulièrement de ceux qui sont financés par des allocations fédérales et enfin mettre un terme à la tendance qui, de longue date, ne cesse d'étendre les fonctions gouvernementales.

But des Allocations fédérales

Les enjeux de cette campagne, digne de propagande, sont mentionnés dans le tableau des allocations en vigueur en 1952. Les quelque quarante programmes (leur nombre exact dépend de la classification et des unités choisies) rentrent dans les cinq groupes fonctionnels de la liste. L'Acte de sécurité sociale de 1935 fondé en grande partie sur les moyens provenant des allocations établit la

bienfaisance sociale comme leur principale fonction. Le poste de tête est l'assistance publique (assistance aux vieillards, aux orphelins, aux aveugles et aux estropiés) se montant à $ 1.2 milliards, 47 % du total. Le tableau montre un lien important entre le système des allocations et le développement des services gouvernementaux aux Etats-Unis.

APERCU DES ALLOCATIONS FEDERALES AUX GOUVERNEMENTS D'ETATS, DE TERRITOIRES ET LOCAUX

Postes du programme	Année de mise en vigueur	Montant durant l'exercice fiscal 1951-1952 (millions)	
Agriculture et ressources naturelles:			
Travaux en faveur du développement del'agriculture	1907	$ 32	
Stations expérimentales	1887	12	
Recherches sur les marchés	1947	1	
Distribution des surplus	1934	39	
Aménagement des forêts et surveillance des incendies	1911	10	
Repeuplement du gibier	1939	10	
total partiel:			$ 104
Enseignement et recherche en général:			
Enseignement professionnel	1917	$ 26	
Collèges subsidiés d'agriculture	1890	5	
Subventions aux zônes de défense	1950	191	
total partiel:			$ 122
Progres de l'habitation et de la vie en commun:			
Subventions aux habitations à bon marché	1937	$ 13	
Défense civile	1950	1	
Assistance aux victimes de catastrophes	—	16	
Divers	—	4	
total partiel:			$ 34
Securité sociale, bien-être et santé:			
Administration de la sécurité d'emploi	1935	$ 187	
Assistance publique	1935	1.178	
Bien-être de la mère et de l'enfant	1921	31	
Santé publique en général	1935	14	
Surveillance des maladies: cancer, coeur, maladies mentales	1945	22	
Inspection et construction d'hôpitaux	1946	124	
Repas scolaires	1946	84	
Assistance et avantages aux vétérans	1888	7	
Divers	—	21	
total partiel:			$ 1.668
A transporter			$ 2.928

Postes du programme	Anné de mise en vigeur	Montant durant l'exercice fiscal 1951-1952 (millions)
Transport		$ 2.928
Transports et communications:		
Voies publiques	1916	$ 414
Aéroports	1946	34
total partiel:		$ 448
Gouvernement en général:		
D.C., Samoa, Gum, Territoires sous mandat . .	—	$ 17
Total:		$ 2.393

Source: Budget of the United States, 1954, pp. 1132-33.

Les Mythes

Ceux qui critiquent le „mythe des allocations", cultivent eux-mêmes un assortiment de mythes, notamment:

1. Le développement de l'aide fédérale serait une manifestation de l'appétit insatiable des bureaucrates "fair deal" pour le pouvoir — un aspect de leurs machinations pour amener la distature. Ce mythe oublie le fait que les programmes d'allocations ont été établis et que les montants de leurs opérations sont déterminés par le Congrès.

2. Les programmes d'aide fédérale seraient administrés par des bureaucrates gaspilleurs de Washington. Or actuellement 90 % de l'Administration et tout le gaspillage sont le fait des bureaux des gouvernements d'Etats.

3. Les gouvernements des localités et des Etats seraient démocratiques, sensibles à l'opinion publique et capables, tandis que le gouvernement fédéral serait irresponsable, tirannique, gaspilleur et inefficace. En réalité ces généralisations manquent de tout fondement; au contraire l'expérience acquise paraît favorable au gouvernement fédéral. Enfin ce mythe manque de toute pertinence puisque les programmes d'allocations intéressent les autorités gouvernementales à tous les degrés.

4. Les programmes fédéraux d'allocations seraient gaspilleurs. L'expérience acquise montre le contraire. Il est généralement admis par les experts que l'influence fédérale a rehaussé la qualité de l'administration des Etats. Sur ce point la récente "Commission Hoover" dit: „La méthode de coopération a amé-

lioré l'administration de beaucoup de départements des Etats. Les normes administratives fédérales ont beaucoup fait pour augmenter l'habilité et la valeur des administrateurs d'Etats, par exemple dans les programmes pour les voies publiques et la bienfaisance, pour les conseils nationaux et pour les activités de police [4]).

5. Tous les programmes d'allocations fédérales aboutiraient à la centralisation, à un dédoublement gaspilleur et à une bureaucratie trop lourde à la tête. Bien qu'une certaine centralisation soit inséparable des programmes d'allocations, semblable généralisation ne peut être soutenue
   a) parce que dans bien des cas un autre choix ne pourrait porter que sur l'administration fédérale directe et exclusive;
   b) ensuite parce que certains programmes d'allocations dénotent des efforts spéciaux tendant à la décentralisation et à éviter des dédoublements.

6. Les allocations fédérales auraient amené le gouvernement fédéral à augmenter sérieusement ses impôts rendant ainsi très difficile aux Etats le relèvement des impositions et ligotant donc les gouvernements d'Etats et locaux. Mais sauf pendant les années de stagnation des affaires des années 1930 les allocations n'ont jamais constitué plus de 6 % de budget national et elle n'en représentaient que 4 % en 1952.

7. Les allocations fédérales seraient une farce, un jeu perdant parce que les perceptions fédérales d'impôts dans tel Etat X dépasseraient ce que ce même Etat X reçoit au titre des prétendues allocations. Ce thème favori pour articles de fond des quotidiens est résolument absurde. Il est évident que le total des allocations fédérales ne pourrait égaler les perceptions fédérales que si le gouvernement fédéral ne faisait rien d'autre que distribuer des allocations.

8. Les allocations fédérales seraient destructrices des gouvernements d'Etats et locaux. Sur ce point le professeur Joseph P. Harris écrit: „Le fait est que les gouvernements d'Etats n'ont jamais auparavant joué un rôle aussi actif, aussi important dans la vie des Etats. Tout le caractère du gouvernement des Etats a été radicalement changé pendant le dernier quart de siècle. Avant la première guerre mondiale les Etats n'avaient que des administrations ou des bureaux rudimentaires pour les voies

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[4]) Overseas Administration, Federal-State Relations, Federal Research pp. 30-31 (March 1949).

publiques, la santé, la bienfaisance, l'enseignement, le travail, l'agriculture et la réglementation des services et des affaires. Assurances-chômage, bureaux publics d'emploi, assistance aux vieillard étaient inconnus. Dans tout ces domaines aujourd'hui les Etats rendent des services essentiels à leurs citoyens." [5]).

Raisons essentielles de Allocations fédérales

S'il y a plusieurs raisons propres à chacun der programmes actuels d'allocations cependant il y a des raisons de base, communes à tous les programmes.

1. La plus importante est la nécessité d'adapter et de développer l'application de notre constitution organique. „Sa raison d'être principale est que la séparation légale des pouvoirs entre Etat fédéral et les Etats, conforme à la théorie stricte de la Constitution, ne répond plus aux conditions modernes et est périmée depuis quelque temps. Le système des allocations est un moyen par lequel le Congrès dans l'exercice de son pouvoir de dépense soumet au contrôle fédéral de nombreuses affaires d'Etat d'intérêt national et adapte ainsi l'organisation des Gouvernements aux besoins actuels des conditions modernes d'existence," [6])

2. En rapport avec la raison précédente, il y a les forces économiques, sociales et morales qui ont nécessité fréquemment des accommodements de nos dispositions constitutionnelles: le passage d'une économie locale et agricole à une économie nationale et internationale, d'une économie caractérisée par la dispersion du pouvoir économique à une autre caractérisée par sa concentration et d'une économie d'exploitation à une économie de conservation.

3. L'ampleur croissante des reponsabilités et des problèmes gouvernementaux ainsi que l'interdépendance croissante des activités sociales ont nécessité parrallèlement l'accroissement et l'interdépendance des tâches gouvernementales. Sur ce point l'étude du COSGO observe: „Les programmes d'allocations ont appliqué une méthode de coopération pour arriver à des résultats qui n'auraient peut-être jamais été obtenus si la technique des allocations n'avait pas été mise en oeuvre."

4. Concurremment beaucoup de charges gouvernementales ont dépassé la capacité financière des gouvernements dans beaucoup

5) „The Sates and the Cities", *State Government*, April, 1945, p. 72.

6) John Mabry Mathews, *The American Constitutional System*, 2nd ed., p. 66.

d'Etats et de localités. Les types d'impôts les plus lucratifs aussi bien que les plus justes sont plus praticables adminstrativement sur une èchelle fédérale.

5. A cet égard il faut tenir compte de grandes différences de richesses de région à région et d'Etat à Etat. En 1952 les revenus moyens par tête allaient de $ 2.260, en Delaware, à $ 818 dans le Mississippi. Que les Etats-Unis présentent de grandes inégalités au point de vue économique a peut-être été la principale raison du progrès des allocations fédérales.

6. Très significative a été l'apparition du concept moral d'un „minimum national", c'est-à-dire de la notion que, pour plusieurs fonctions gouvernementales essentielles, il devrait y avoir une certaine qualité minima de service dans tout le pays. „A tout prendre les allocations ont été le plus important levier du domaine des relations Etat Fédéral-Etat capable d'assurer partout une qualité minima des services publics. D'autres Etats fédéraux ont employé un système d'allocations dans un but d'égalisation mais aucun ne l'a essayé sur une échelle géographique, sociale et fiscale comparable aux Etats-Unis [7]).

7. Un élément non négligeable a été trop souvent le défaut des Gouvernements d'Etats et locaux de satisfaire aux desiderata du public. Quelles-unes de ces omissions peuvent être attribuées à une capacité fiscale limitée, d'autres à des empêchements qui proviennent de la concurrence économique entre les Etats, enfin il y en a qui procèdent d'une indifférence totale aux désirs du public.

Défauts et Inconvénients

Les allocations ne sont pas une panacée, ce système n'est pas la meilleure solution à tout problème et sans doute y-a-t-il lieu au perfectionnement de l'organisation actuelle. On peut critiquer légitimement ses inconvénients et ses défauts. Les critiqques les plus valables semblant:

1. L'absence de système, provenant de ce que les programmes ont été adoptés nécessairement en pièces détachées. L'organisation actuelle manque de coordination et certains programmes ont besoin d'être remaniés.

2. Il y a des cas où les allocations ont faussé les modalités des dépenses et des services des Etats, là où les travaux non sujets

[7]) *Federal-State Relations*, p. 48.

aux allocations ont souffert parce qu'on employait des ressources limitées à rivaliser avec les allocations. Ceci a été très frappant dans les programmes d'assistance de certains Etats du Sud à faible revenu, qui ont orienté dans quatre directions à peu près tous les fonds d'assistance de l'Etat, au dépens de l'assistance en général [8]).

3. Les modalités de distribution dans beaucoup des plus anciens programmes devraient être modifiées pour tenir compte du facteur de capacité fiscale relative des Etats de manière à favoriser une égalisation sur le plan géographique et la réalisation de minima nationaux.

4. Le Congrès devrait exiger une qualité plus élevée de l'Administration des Etats pour quelques programmes. Par exemple les départements des voies publiques, subventionnés à concurrence de près de 50 % par les allocations fédérales, ne devraient pas être des machines de patronage comme ils le sont dans l'Indiana, l'Illinois et quelques autres Etats.

5. Peut-être dans quelques domaines devrait-il y avoir moins d'allocations spéciales et plus d'allocations à destination générale.

6. Est spécialement contestable le système actuel d'une allocation fédérale à concurrence de 100 % du coût administratif de la sécurité sociale. Les Etats ne payant rien du tout, la plupart des assemblées législatives d'Etats ont tendance à en considérer les bureaux comme exclusivement fédéraux et ne voient pas de raison de soumettre leurs fonds aux règles du budget, ni d'exercer une surveillance quelconque.

7. Dans l'administration des allocations fédérales les bureaux des Etats ont tendance parfois à constituer des îlots autonomes s'opposant au contrôle et à la direction de l'exécutif. C'est là un problème réel mais qui n'est pas insurmontable. Des rapports plus étroits entre le bureau de l'Etat et son correcpondant à Washington n'excluent pas nécessairement la direction par l'Etat.

Conclusion

L'établissement de la Commission pour les relations intergouvernementales est le résultat principalement de deux campagnes simultanées: la violente campagne d'opposition à l'aide fédérale et les

[8]) Federal-State Relations, pp. 53-55.

demandes répétées des fonctionnaires d'Etats et de localités pour plus de „coordination des impôts".

Le souci des fonctionnaires d'Etats provient dans une large mesure des difficultés fiscales des gouvernements d'Etats depuis la deuxième guerre mondiale malgré la prospérité phénoménale. Ces gouvernements ont été coincés entre les coûts croissants des services des Etats et d'autre part les impôts fédéraux élevés.

Si la Commission usait de son autorité pour recommander un nouveau programme fédéral de quelque importance, touchant par exemple à l'enseignement général, ses tenants seraient gravement déçus, car les promoteurs du P.L. 109 ont dit fort clairement ce qu'ils attendent de la Commission, et la personnalité des membres doit l'amener à produire de bonnes recommandations.

Personne ne pourrait nier que le fédéralisme américain ait grand besoin de renouvellement, ni que la Commission puisse jouer un rôle constructif. Cependant on peut se poser les questions suivantes à son sujet: De nouvelles études sont-elles nécessaires après les autres études récentes? La lenteur du progrès dans la coordination des impôts doit-elle être attribuée à un manque de renseignements, à la malveillance du Congrès ou de l'ancienne administration, ou bien à des conditions objectives? Est-ce donc faire preuve de réalisme que de penser à la coordination fiscale principalement en termes de séparation des sources d'impôts? Les Etats par exemple ont-ils intérêt à abandonner les impôts sur les revenus des sociétés et des particuliers? La proposition fédérale d'impôts sur les ventes, défendue par quelques-uns des tenants du P.L. 109, est-elle un exemple de coordination fiscale? Si les allocations fédérales sont amputées, tous les Etats sont-ils prêts à en boucher les trous? Les précédents et les conditions actuelles des finances d'Etats et locales sont-ils en ce sens? Est-il souhaitable de décharger les impôts progressifs du coût de ces services pour les imputer à des impôts régressifs? Des aménagements de la coordination fiscale et des réductions considérables des allocations fédérales ne touchent-ils que des questions de structure ou bien également des questions politiques importances? Enfin l'origine et la composition de la Commission sont-elles de nature à garantir un examen objectif?

Notre système d'allocations fédérales n'est pas et ne devrait pas être statique ou complètement uniforme. Peut-être, en plus des modifications mentionnées plus haut devrions-nous faire l'expérience d'allocations générales comme au Royaume-Uni et plus récemment à New-York. L'aide fédérale devrait probablement être retirée de quelques programmes, comme par exemple, les allocations annuelles aux collèges d'agriculture. Si un programme d'aide à l'enseignement général devait être adopté, peut-être les alloca-

tions à l'enseignement technique pourraient-elles être supprimées. Quoique le système présente quelques inconvénients essentiels et aussi quelques défauts évitables, il ne mérite pas, en somme, des critiques sans discrimination. Une partie du barrage habituel de propagande semble un écran de fumée pour une attaque de flanc contre les différents programmes particuliers financés par les allocations fédérales. Au contraire, l'aide par allocation a été un instrument inestimable pour adapter le système fédéral américain de 1789 à l'état social de 1954, pour doter les 125.000 autorités subordonnées de la force collective et de la coordination nécessaire pour entreprendre de traiter les problèmes d'une époque atomique et pour arriver à une mesure substantielle de justice sociale.

SHIFTING OF A SPECIFIC EXCISE TAX [1])

BY MARSHALL R. COLBERG

Florida State University

A time-honored and much-discussed problem in public finance is that of the shifting and incidence of a specific tax per unit of output of a particular commodity. Despite the attention which this relatively simple problem has received it has not been treated adequately either in the textbooks on public finance or in the articles and books which deal more specifically with tax shifting.

There are two principal shortcomings of existing discussions of this case. First, the writers almost invariably conclude that the rise in price which follows imposition of a specific excise tax depends on the relative elasticities of supply and demand. Actually the price rise can more simply be attributed to the relative slopes of these curves. Second, the treatment is usually geometric in nature; this technique fails to give quantitatively definite results except in hand-picked cases where, for example, either the demand or supply curve is vertical or horizontal.

The present note will contain a derivation of simple algebraic formulas for expressing the price change resulting from a uniform increase in marginal cost under (a) pure competition and (b) monopoly. It will be clear from these formulas that no use need be made of the concept of elasticity in this type of problem. [2]) In the derivation of these formulas Marshallian partial equilibrium assumptions will be used, i.e., the cost increase will be considered to apply only to the commoditiy under consideration. Linear functions will be utilized for simplicity. Further, empirical investigations frequently find that linear functions provide as satisfactory approximations to reality as do more complex functions for both demand and marginal cost. While reference will be made to an excise tax, the derived formulas are equally applicable to other situations in which marginal cost is shifted uniformly upward — for example because of a rise in a particular freight rate. They are applicable also to a downward shift in cost due, for example, to receipt of a subsidy.

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1) Helpful suggestions have been made by Professors J. M. Buchanan, C. L. Allen, J. W. Milliman, and F. C. W. Olson.

2) O. von Mering, *The Shifting and Incidence of Taxation* (Philadelphia, Blakiston, 1942) and H. M. Somers, *Public Finance and National Income* (Philadelphia, Blakiston, 1949), unlike most books in the field, refer to slopes rather than elasticities in this connection.

I

The first case to be considered is that of a purely competitive industry with linear demand and short-run supply curves (the latter being the horizontal summation of marginal cost curves of the individual firms, including only portions above minimum average variable cost per unit).

Let: $p = a - bq$, or $q = \frac{a - p}{b}$ be the demand curve,

$p = k + cq$, or $q = \frac{p - k}{c}$ be the supply curve.

Equilibrium quantity exchanged is found by equating amount demanded and amount supplied:

$$\frac{a - p}{b} = \frac{p - k}{c}.$$

Solving this equation for equilibrium price we have

$$p = \frac{ac + kb}{b + c}.$$

Assume now that the entire supply curve is shifted upward by the amount t, due, for example, to the imposition of a tax of t dollars per unit of output. Demand is unchanged, but the supply function becomes

$$p^1 = k + cq + t \text{ or } q = \frac{p^1 - k - t}{c}.$$

Equating quantity demanded and supplied after the tax has been levied we get:

$$\frac{a - p^1}{b} = \frac{p^1 - k - t}{c}.$$

Solving for p^1 to get the equilibrium price after the tax we get:

$$p^1 = \frac{ac + kb + tb}{b + c}.$$

In order to find the increase in price, $\triangle p$, occasioned by the tax it is necessary to subtract from this new price the price prior to the tax. This gives

$$\triangle p = \frac{tb}{b + c}, \text{ which can be expressed as } \triangle p = \frac{t}{1 + \left(\frac{c}{b}\right)}$$

The increase in competitive price is shown to vary directly with the amount of the tax and inversely with the term $1 + \left(\frac{c}{b}\right)$; it is

consequently a function of the tax and of the slopes of the supply and demand curves. [3])

II

The formula which shows the effect of a cost shift on optimum monopoly price can be derived in a similar manner.

As before, let demand be

$$p = a - bq$$

and let the marginal cost function be

$$p = k + cq.$$

It is necessary to have an equation for marginal revenue (MR). By differentiation we obtain

$$MR = \frac{d(pq)}{dq} = a - 2bq.$$

Equating marginal cost and marginal revenue to get optimum output:

$k + cq = a - 2bq$. Solving for q,

$$q = \frac{a - k}{2b + c}.$$

Substituting this value for q in the demand function we get as the expression for optimum price:

$$p = a - \frac{b(a - k)}{2b + c}.$$

In order to obtain optimum monopoly price after the tax it is necessary to add the amount t to marginal cost and again equate marginal cost and marginal revenue:

$k + cq + t = a - 2bq$. Solving for q,

$$q = \frac{a - k - t}{2b + c}.$$

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[3]) Hugh Dalton, *Principles of Public Finance,* (London, Routledge and Kegan Paul, 1922), p. 74 states for the same case that the change in price is equal to $\frac{te_s}{e_d + e_s}$, where t is the amount of the tax, e_s is the elasticity of supply and e_d is the elasticity of demand. This formula is unnecessarily complex since it reduces to the formula given in the present paper when cancellations are made. This can be shown as follows. If Ss is the slope of the supply curve and Sd is the slope of the demand curve, Dalton's formula may be written:

$\Delta p = \frac{t\left(\frac{1}{S_s} \cdot \frac{p}{q}\right)}{\frac{1}{S_d} \cdot \frac{p}{q} + \frac{1}{S_s} \cdot \frac{p}{q}}$. This cancels to $\Delta p = \frac{t \cdot \frac{1}{S_s}}{\frac{1}{S_d} \cdot \frac{1}{S_s}}$. This may be written,

$\Delta p = \frac{t}{1 + \left(\frac{S_s}{S_d}\right)}$, which is the formula derived in the present paper.

Substituting for q in the demand function we get optimum price subsequent to the tax:

$$p^1 = a - \frac{b(a - k - t)}{2b + c}$$

Subtracting p from p^1 we get the price increase due to the tax:

$$\Delta p = \frac{bt}{2b + c} \text{ or,}$$

$$\Delta p = \frac{t}{2 + \left(\frac{c}{b}\right)}$$

The increase in monopoly price is shown to vary directly with the amount of the tax and inversely with the term $2 + \left(\frac{c}{b}\right)$.

III

Utilizing the formulas

$$\Delta p = \frac{t}{1 + \left(\frac{c}{b}\right)} \text{ and } \Delta p = \frac{t}{2 + \left(\frac{c}{b}\right)} \text{ for the competitive and}$$

monopolistic cases, respectively, it may be worthwhile to compute the results in several possible cases. It will be noted that the results in the cases where demand or marginal cost curves have zero or infinite slope are consistent with those which can easily be visualized geometrically, and which have often been stated in the literature, but that other cases, not easily treated geometrically, can be handled just as readily by use of the formulas.

1. Let the marginal cost curve be horizontal ($c = 0$) and the demand curve have a slope greater than zero but less than infinity.

a) Under competion: $\Delta p = \frac{t}{1 + \left(\frac{0}{b}\right)} = t.$

b) Under monopoly: $\Delta p = \frac{t}{2 + \left(\frac{0}{b}\right)} = \frac{1}{2} t.$

Thus the price rise will equal the tax (or similar cost increase) under competition, and will be half as great under monopoly.

2. Let the marginal cost curve be vertical ($c = \infty$) and the demand curve have a slope greater than zero but less than infinity.

a) Under competion: $\Delta p = \dfrac{t}{1 + \left(\frac{\infty}{b}\right)} = 0.$

b) Under monopoly: $\Delta p = \dfrac{t}{2 + \left(\frac{\infty}{b}\right)} = 0.$

The price will be unaffected by the cost increase under either competition or monopoly (since this is really the case of fixed supply in which cost does not affect price).

3. Let the marginal cost and demand curves have equal numerical slopes ($c = b$) greater than 0 and less than infinity.

a) Under competition: $\Delta p = \dfrac{t}{1 + \left(\frac{c}{b}\right)} = 1/2\ t.$

b) Under monopoly: $\Delta p = \dfrac{t}{2 + \left(\frac{c}{b}\right)} = 1/3\ t.$

Competitive price will rise by half the cost increase and monopoly price by one third of the increase.

4. Let the demand curve be vertical ($b = \infty$) and the marginal cost have a slope greater than zero and less than infinity.

a) Under competition: $\Delta p = \dfrac{t}{1 + \left(\frac{c}{\infty}\right)} = t.$

b) Under monopoly: $\Delta p = \dfrac{t}{2 + \left(\frac{c}{\infty}\right)} = 1/2\ t.$

This result is without any clear significance for monopoly since an infinitely high price would have been charged in the first place.

5. Let the demand curve be horizontal ($b = 0$) and the marginal cost curve have a slope greater than zero and less than infinity.

a) Under competition: $\Delta p = \dfrac{t}{1 + \left(\frac{c}{0}\right)} = 0.$

b) Under monopoly: $\Delta p = \dfrac{t}{2 + \left(\frac{c}{0}\right)} = 0.$

No price change would occur in either case because buyers are willing to buy at only one particular price.

IV

Use of the formulas which have been derived both simplifies explanation of the effect of a specific excise tax and serves to guard against unnecessary use of the overworked term elasticity. Whereas students frequently consider slope and elasticity to be identical, economists are usually aware of the difference but have an unfortunate habit of using the more complex notion where the simpler one is adequate. Nowhere is this propensity more evident than in the theory of tax shifting. While it is not incorrect to refer to relative elasticities in showing the effects of a specific excise tax, to do so complicates the exposition and constitutes, therefore, something of a pedagogic sin.

L'INCIDENCE D'UN DROIT D'ACCISE SPECIFIQUE

PAR LE PROFESSEUR MARSHALL R. COLBERG

RESUME

Un problème à l'ordre du jour en finance publique est celui de l'incidence d'une taxe spécifique par unité de production d'un bien déterminé. Néanmoins la solution n'en a pas été donné sous la forme la plus simple et la plus usuelle dans les traités ou dans les articles touchant à l'incidence des impôts.

Dans une industrie soumise à la concurrence, la constation est presque toujours faite que l'accroissement de prix qui suit l'introduction d'un droit d'accise déterminé dépend de l'élasticité relative de l'offre et de la demande. Cela n'est pas inexact, mais est inutilement compliqué puisqu'il suffit de s'en reporter à l'inclinaison relative des courbes de leurs fonctions. Dans le cas du monopole il n'y a pas de courbe de l'offre, mais l'accroissement de prix résultant d'un droit d'accise peut être retrouvé plus simplement dans les inclinaisons relatives des courbes de la demande et du coût margninal de production.

Si pour la facilité nous faisons usage d'une courbe linéaire de demande et d'offre, en supposant que b soit l'angle d'inclinaison de la fonction demande et c l'angle d'inclinaison de la fonction offre, l'accroissement des prix concurrentiels dû à un droit d'accise déterminé t peut être exprimé par la formule

$$\triangle p = \frac{t}{1 + \left(\frac{c}{b}\right)}$$

Dans le cas d'un droit d'accise spécifique frappant un bien produit en régime de monopole, l'usage des mêmes symboles (c étant maintenant l'angle d'inclinaison de la fonction du coût marginal) donne comme formule correspondante

$$\triangle p = \frac{t}{2 + \left(\frac{c}{b}\right)}$$

Il est manifeste qu'il n'a pas été fait usage dans ce genre de problème de la notion plus complexe d'élasticité. Ces formules sont également plus pratiques que la représentation géométrique habituelle puisqu'elles permettent facilement de traiter le problème pour toute combinaison des fonctions de demande et d'offre (ou de coût marginal), au lieu de le faire seulement pour telle relation bien déterminée.

USE OF TAX COLLECTIONS IN KIND TO COMBAT INFLATION IN THE REPUBLIC OF KOREA [1])

BY HASKELL P. WALD *)

Economist, International Program in Taxation
Harvard Law School, Cambridge (U.S.A.)

In 1951, the Republic of Korea changed its method of agricultural taxation from collections in cash to collections in kind. Under ordinary circumstances, such a change in a country with a fairly modern system of taxation would be described as retrogressive. Tax collections in kind were the prevailing method of taxation some centuries before the Common Era. The method continued to be important down through feudal times, both for public revenue and land rent, but it lost ground rapidly in Europe as industrialization spread and agriculture became market-oriented. It is interesting to note that Adam Smith viewed collections in kind with disfavor because they "would suffer so much from the mismanagement of the collectors, that a very small part of what was levied from the people would ever arrive at the treasury of the prince". [2]) Today, only a few underdeveloped countries, notably China, make extensive use of the in-kind method of collection. These countries are less developed, industrially, than the Republic of Korea, and their tax systems are more primitive.

The decision to impose a relatively heavy tax in kind on Korean farmers seems to have been well-advised, notwithstanding its atavistic appearance. Seventy percent of the country's population lives in farm areas and approximately half of the gross national product originates in agriculture. The "Temporary Land Income Tax", as the new measure was called, has produced large revenue; if the grain collections under the tax are valued in realistic market prices, they account for more than two-fifths of total tax receipts of the national government, according to the estimates for the fiscal year 1953-54. In addition, the tax has served to implement the government's economic policy in various ways.

The present article analyzes the Korean experience from the standpoint of its economic rather than administrative aspects. An

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*) Dr. Wald is a Professorial Lecturer at the American University, Washington, D.C.

1) The material for this article was collected when the author visited Korea in 1953 as a member of the Economic Consultants Team, United Nations Korean Reconstruction Agency.

2) *The Wealth of Nations* (The Modern Library, 1937), p. 790.

important conclusion of the analysis is that tax collections in kind offer certain advantages which have been overlooked heretofore, although it is still true that the method has significant weaknesses and can be recommended only under very special circumstances.

The Country's Desperate Economic Plight

The change from cash to in-kind collections from the agricultural sector was the most important of several tax changes made in 1951 in an effort to adapt the revenue system to the disrupted state of the economy and the attendant inflation. The economic setting for these tax changes can best be explained against the background of developments in Korea since the end of World War II.

The Korean economy all but collapsed in the Summer of 1945, when the expulsion of 700,000 Japanese nationals eliminated the top layer of officialdom and the bulk of the country's technicians and leaders of finance, commerce and industry. [3]) With the breakdown of the wartime economic controls, prices jumped between 20 and 25 times within the short space of a few months. The intensive exploitation of the country's resources and productive plant in the interest of the Japanese war machine had changed South Korea from a food surplus to a food deficit area, and left its railroads, mines, and factories in almost complete disrepair. In addition, the country was dealt severe economic blows both by the separation from Japanese markets and sources of raw materials and by the division of the peninsula at the 38th parallel.

Painfully slow economic progress was made between 1945 and the Communist invasion in June 1950. The United States Military Government was unable to concentrate on economic rehabilitation and reconstruction because of the pressing nature of the immediate problems of relief. The aid program necessarily gave priority to food, fertilizer, and coal; transportation equipment was about the only important class of capital goods imported. After the establishment of the Republic of Korea in 1948, responsibility for the American aid program was assigned to the Economic Cooperation Administration. Hardly had an investment program been approved when the fighting started and the country was thrown into a war of survival.

The rapid rise in prices continued almost uninterruptedly during this period and had seriously detrimental effects on production. The powerful inflationary pressures generated by large government

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[3]) See Arthur I. Bloomfield and John P. Jensen, *Banking Reform in South Korea* (Federal Reserve Bank of New York, March 1951), pp. 9-42.

deficits and liberal extensions of bank credit could not be held in check by price regulations, rationing, and other direct controls. The inflation showed signs of abatement in the Spring of 1950, but the situation changed drastically, of course, when the war broke out.

In summary, the available information indicates that on the eve of the invasion the population was still living below its accustomed standard, despite the availability of American aid, and that its productive facilities were in far poorer shape than a decade earlier.

The economic disruption caused by the invasion from the North initiated a new price upheaval. With most factory production at a standstill, the military taking whatever supplies it could get hold of, and businessmen and consumers trying desperately to convert money into goods, the price level increased by more than six times during the first year of the war and almost tripled in the second year. The situation was further aggravated by poor harvests in both 1951 and 1952.

Advances of local currency to the United Nations Command were the most important single source of the expansion in the money supply in this period. These funds were needed for local procurement of supplies and for wage payments to Koreans working for the U.N. forces. The large imports of consumers goods were only mildly counter-inflationary, because relief goods had to be given away, not sold, and the imports for sale were priced too low to absorb any substantial amounts of purchasing power. Another major source of monetary expansion was the growth of bank credit, which was due in large part to the chronic deficits of government-owned enterprises. These enterprises include both the nationalized industries, such as transportation, electric power, and mining, and a substantial number of other properties which were taken over from the Japanese Government or Japanese nationals and have never been returned to private ownership.

The budget deficit, which was financed by borrowing on overdraft at the Bank of Korea, was exeedingly large in the fiscal year which ended March 31, 1951, when revenues accounted for about 30 percent of total expenditures of the national government. During the next two years, however, budget receipts and expenditures were brought into close balance with each other and no longer were an important source of inflation. [4]) This fiscal accomplishment partly accounts for the slowing down of the price advance to a 30-percent increase from June 1952 to June 1953.

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[4]) Preliminary information indicates that this favorable development was short-lived. Large-scale deficit financing was again necessary in the 1953-1954 fiscal year, due to substantial increases in several expenditure programs.

The revenue statistics are difficult to evaluate by themselves, because much of the increase merely reflects the progress of inflation rather than a more intensive tax effort. The statistics become more meaningful after adjustment for price changes. On this basis, the central government's revenue rose by about two and one-half times between the fiscal years 1949-50 and 1952-53, in spite of the country's disorganized state in the latter year. Total national production in 1952-53 was somewhat less than 80 percent of the 1949-50 level.

The large increase in tax collections measured in constant prices was the combined result of a strengthening of collection and enforcement procedures and new legislation providing sharp increases in tax rates and introducing important structural revisions in the tax system. Only the most important of these changes can be described in this article.

Fiscal Adaptations to the Inflation

The Republic of Korea imposes an elaborate system of indirect taxes, including: (1) a gross receipt tax, with rates varying according to class of business; (2) separate excises on liquor and textile products; (3) a Commodity Tax covering a wide range of manufactured commodities which are grouped into seven classes for tax purposes; and (4) various excises collected at the retail or consumer level, such as the taxes on restaurants and places of admission and on transportation fares and utility bills. [5]) The changes in these indirect taxes followed the conventional pattern for a war period; that is, the rates and coverage of the taxes were revised to make them conform with severe austerity standards. Luxury items, such as precious stones, cameras, and furs, were made subject to a rate of 100 percent. The higher-class restaurants paid a tax of 200 percent on charges for service and entertainment and 60 percent on other charges, while the admissions tax was raised to 90 percent for movies and 180 percent for dance halls.

In the field of direct taxes, some changes of a more inventive type were made. The personal income tax was converted from a global to a schedular tax, with no provision for a surtax on total family income from all sources. Income from agricultural production was excluded from the tax. Six separate rate schedules were provided, with

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5) In addition, large revenues are obtained from the Tobacco Monopoly. A description of the tax system is included in the economic report on Korea which was prepared by Robert R. Nathan, Associates, Inc., in 1953. This report is being published by the United Nations Korean Reconstruction Agency.

steeply progressive rates except in the case of interest and dividends, which were taxed at proportional rates. As a means of speeding up the collection of taxes on income not subject to withholding, the taxable period was shortened to three months for most classes of businesses. The taxes on rental income and profits from businesses with marked seasonal fluctuations were assessed semi-annually. No provision was made for reconciling the quarterly or semi-annual tax computations with the full-year tax liability. Taxpayers with fluctuating incomes were not given any relief from the impact of the graduated rates, not even by the simple procedure of loss carry-overs.

The withholding taxes on wages, interest, and dividends were assessed and collected on a monthly basis. Once the income exceeded the exemption, which was very low, the full amount of the income became taxable. This feature eliminated the need for year-end adjustments and reduced the problems which arise when a worker has two or more employers and claims more exemptions than he is entitled to. The former allowances for martial status and number of dependents were discontinued.

These modifications reflected a deliberate decision to subordinate equity considerations in the interest of obtaining simplified administration and prompt collection. The importance of these objectives was underscored by the fact that prices were rising rapidly, month after month, and by the difficulty of collecting taxes when large numbers of persons and businesses are being forced to move from one place to another. Moreover, there was an understandable impatience with the financial hardships of inequitable tax features when these hardships were placed alongside the bitter suffering of those directly affected by the war.

The most sweeping adaptations of the revenue system to the prevailing inflationary conditions were in the field of agricultural taxation. These merit more detailed treatment than the changes discussed so far.

The Temporary Land Income Tax

The former Land Tax and Farm Income Tax were replaced by the Temporary Land Income Tax, which was enacted in September 1951. This tax was intended to serve more than purely fiscal purposes. It was designed to be a key instrument of national food policy and of price and wage control. At the time that it was being considered, the government was committed to purchasing huge quantities of rice — by far the largest staple crop of the country —

for distribution to the army, national police, government employees, in-kind would provide a direct and efficient means of obtaining the program which aimed to protect the city population against soaring food prices and recurrent food shortages by making available a limited rice ration at the low official price.

It occurred to the government that the method of tax collections in-kind would provide a direct and efficient means of obtaining the large amounts of rice that were needed for these purposes. Previously, it was necessary to compel farmers to sell a portion of their crop to the government at less favorable prices than were obtainable in the free market. Additional quantities of grain were procured by paying the highly inflated open-market prices. The government nevertheless fell behind in its distributions to government workers and persons entitled to the rice ration. This created serious hardships for an important segment of the population. Moreover, it threatened to upset the operation of wage and price controls, due to the fact that the practice of paying government workers and many others partly in rice was of pivotal importance for the system of controls then in force. The rice supplement to wages made it possible to hold money wages constant in the face of sharp increases in general retail prices. As the price of rice rose, the portion of the wage paid in rice became considerably more valuable than the cash portion of wages. The rice supplement gave wage earners much of the benefits of an escalator clause in their wage contracts, without requiring constant adjustments in wage rates as the cost of living increased. This simplified the administration of wage controls. Employers, workers, and the government accepted the proposal for collections in kind because it would help to strengthen the system of paying wages partly in rice.

From a fiscal standpoint, much of the attractiveness of tax collections in kind stemmed from the fact that, under the prevailing conditions, such collections would not decline in purchasing power the way cash collections did. The six-fold increase of prices during the first year of the war emphasized the desirability of providing the treasury with some form of insurance against loss of purchasing power. It is also likely that the treasury officials expected that in-kind collections would be more effective than cash collections as a means of raising additional revenue from farmers whose cash resources are traditionally limited. Moreover, in-kind collections would permit the government to capture the speculative profits that would normally accrue as the grain moved through regular distributive channels.

It was the intention of the National Assembly, in enacting the Temporary Land Income Tax, to consolidate several different as-

sessments into a single levy on the agricultural population. Not only were the Land Tax and Farm Income Tax suspended when the new tax became effective, but it was also provided that the provincial and local taxes on agriculture should no longer be collected. In order to compensate the provinces and local governments for the loss of revenue, the law provided that 35.3 percent of the yield of the new tax should be returned to the local units. The goal of a consolidated levy on agriculture has not yet been realized, however, due to the persistence of the local governments in collecting some of the old impositions on farmers, such as the so-called "voluntary contributions".

Structure of the Tax

Although the Temporary Land Income Tax was primarily directed toward the taxation of income from agricultural land — or "first class" land, to use the language of the statute — it also applied to the income from urban land, called "second class' land. Each class of land was taxed under separate provisions as to the tax base, tax rates, and time and method of payment.

The tax on urban land was placed at 12 percent of the annual rental value of the land. In addition, the net income from non-farm land was taxed under a special tax schedule in the personal income tax. Income from farm land, on the other hand, was not subject to additional taxation.

Under the statute, agricultural land was divided into two categories: Class A, which includes paddies and dry fields producing staple crops, such as rice, barley, wheat, and rye; and Class B, which includes lands producing vegetables, orchard fruits, and ginseng.

As a general rule, the tax on Class A land was to be assessed on the basis of the average harvest which is recorded in the cadastre and was used under the earlier laws for the determination of the registered rental value of the land. The country has a well-developed cadastral system, which provides accurate and up-to-date information as to the location, size, grade of land, crops produced, yield, rental value and ownership for each plot af land. The land maps and records have been carefully preserved for many years in specially designed vault-type buildings in each taxing district. The law requires a cadastral survey every ten years. A new survey was scheduled for 1953 but had to be postponed because of the war.

There are a number of provisions for exemption from and mitigation of the tax. When land becomes barren or its topography is changed as a result of a national calamity, an exemption for five years may be granted upon request. Whenever the actual

harvest is 30 percent or less of the average harvest, no tax is levied. When non-taxable land, such as submerged or barren land, is improved through reclamation, irrigation, or other means, a tax exemption for a period up to ten years may be granted upon request of the owner.

Of particular interest from an incentive standpoint is the fact that the law specifically states that there should be no additional tax whenever the actual harvest exceeds the average which is recorded in the land ledger. This provision was intended to encourage heavier application of fertilizer and improved production methods.

In order to assure fair and equitable tax assessments, the law established Farm Land Investigation Boards in each local jurisdiction. The Boards are composed of local farmers who are appointed by the district collectors of internal revenue. The Boards determine the production of each farmer and make recommendations as to the amounts of taxes to be assessed in cases of dispute or hardship. Because of the poor harvest in 1951 and 1952 and the general suffering of the population, an abnormally large number of tax assessments were based upon the lower actual harvest as determined by the Boards, rather than upon the average yield in past periods.

Tax Rates and Methods of Payment

The tax rates on Class A agricultural land are graduated by tax brackets according to the amount of the assessed yield of the taxpayer's land holdings. The rates begin at 15 percent on the first 10 suk, and increase to 28 percent on the amount of the assessed harvest exeeding 50 suk. (One suk equals 5.11 bushels). As far as can be ascertained, only a few farmers are subject to the higher bracket rates. All lands producing staple crops, whether rice, barley, wheat, rye, or other grains, are taxed under the same rate schedule. When the harvest is less than 5 suk, in the case of a paddy field, and less than 3 suk, in the case of a dry field, the tax base is reduced by 30 percent of the harvest.

Farmers paying annual installments on land obtained under the land reform of 1949 are taxed under a separate rate schedule which provides a general reduction of 5 percentage points from the standard schedule. This relief was granted because the new landowners must pay for their land in annual installments amounting to 30 percent of each year's harvest. These payments continue for 5 years.

The tax on Class B land, which includes lands producing vegetables, orchard fruits, and ginseng, is based upon the farmer's

actual net income, valued in monetary terms, from working the land. The tax collector can base the tax assessment either on a return filed by the farmer or on a finding by the local Farm Land Investigation Board. The exemptions which apply to Class A land are also applicable here. The tax rates are graduated according to net income brackets. They start at 25 percent on net income up to 4,000 hwan and rise to 70 percent on the amount of net income above 500,000 hwan. (At the official exchange rate, 180 hwan equal one dollar.) The lower rates which are paid by owners of Class B land obtained under land reform represent a reduction of 10 percentage points in each income bracket.

The year is divided into two taxable periods, the first from January 1 to July 31, and the second from August 1 to December 31. This arrangement was necessary because of the prevalence of double cropping. The taxes are assessed during June and November and collected during July-August and November-December.

The tax on land producing staple crops must be paid in kind. The taxpayer can always pay in rice, regardless of which crops are grown on his land. Farmers cultivating Class B land have the option of paying either in cash or in grain of equivalent monetary value. The collection statistics for the fiscal year 1952-53 show that more than 95 percent of the combined tax on both classes of agricultural land was paid in staple grains, primarily rice and barley.

The grain is required to be delivered to collection points, where it is inspected and inventoried by the tax officials. Representatives of the Federation of Financal Associations assist in this work. The grain is deposited in the Federation's warehouse and held until requisitioned by the Ministry of Agriculture. [6])

The methods of the Federation in handling the grain have occasionally been suspect. Collection and storage of grain in such huge quaintities present serious policing problems, and it would be quite unusual, if it were found that there were no large losses through theft.

Valuation of Grain Collections

The tax collections in kind are valued for accounting purposes at the official grain prices established by the government. During

[6]) The Federation of Financial Associations was originally an organization of small cooperative banks which provided banking and credit facilities to small farmers and merchants. In recent years, the Federation has taken on many non-banking activities, such as the collection, warehousing, and distribution of grain, and the purchase and distribution of imported fertilizer and raw rubber, and has become, in effect, a government angency exerting wide influence over the farm community.

1952 and 1953 these prices ranged between one-third and one-half of the open-market prices. The use of the official prices means that the yield of the Temporary Land Income Tax is grossly understated in the budget reports. For example, the revenue estimates for the national government for the fiscal year 1953-54 indicated that about one-fourth of total tax receipts (including monopoly revenue) would come from the Land Income Tax. If the estimates had been based upon market rather than official prices, the share attributable to the tax would have been between 40 percent and 45 percent.

The policy of undervaluing the grain collections is of no consequence insofar as the balance between budget receipts and expenditures is concerned. The reason for this is that the grain which is collected and reported as tax receipts shows up again as a budget expenditure when it is distributed to the army, relief population, and government workers, or is otherwise disposed of. If the official prices were raised to a more realistic level, both receipts and expenditures would be increased by approximately equal amounts.

The decision on pricing has other important implications, however. For example, payments to the former landowners are determined on the basis of the official grain prices. Under the land reform, these landowners were compensated for their land holdings with government bonds, which are to be redeemed from a sinking fund derived from the annual installments paid to the government by the new landowners. Since these installments are paid in kind, it is apparent that the treasury stands to gain most when the official price for valuing the grain is lowest. Nevertheless, the government has raised its official prices on several occasions and has thereby mitigated the effect of the inflation on the bonds held by the former landowners.

A second result of the practice of underpricing the grain is that it serves to lower the income taxes of those wage earners who are paid partly in rice. Although the value of the rice is included in the income base used for computing the amount of tax withholding, the rice is valued at th official price and not at the actual market price. The effect is to discriminate seriously against those workers who are paid wholly in cash and thus are taxed on the full value of their wage income. The resultant tax saving for government workers and others who receive a wage supplement in the form of rice is not necessarily a net gain, however, since these workers are notoriously underpaid. It would be easy for the government to look upon the understatement of tax liability as providing a partial offset against the low wage scale.

Conclusions

The preceding discussion has shown that the experience of the Republic of Korea with tax collections in kind is noteworthy for several reasons. In the first place, to the extent that taxes were collected in grain rather than in money, the government was able to obtain that much protection against the rapid decline in purchasing power of money caused by the inflation. Secondly, the revenue productivity of the tax was remarkable, in view of the shattered state of the economy and the meagre living standard of the farm population. According to the official estimates, 11 percent of the rice harvest was collected in taxes in 1953. It is doubtful whether any tax of the conventional type could have mobilized a comparable percentage of the gross income of Korean farmers. [7])

The large yield of the Temporary Land Income Tax was valuable both for anti-inflationary fiscal purposes and as a means of placing needed grain at the disposal of the government. In the latter connection, it should be noted that the government's participation in food distribution extended beyond meeting the needs of the army, national police, and relief population. During this period, all city families were dependent upon the rice ration for protection against the rising cost of living and recurrent food shortages.

Another result of the tax was that it served to buttress the system of direct controls over prices and wages. This aspect of the tax, however, is not necessarily a point in its favor, since it is easily demonstrated that the controls have not been effective. The lack of effectiveness was in no way associated with the tax or with the system of grain distribution as such, but rather with general weaknesses in government administration and with a misconceived "hold-the-line" pricing policy which could not cope with the enormous inflationary gap. These issues cannot be examined in the present article. It should be noted that the abandonment of most of the direct controls has often been recommended in order to permit the price structure to respond to the interplay of market forces. [8])

Closely allied to the effect of the tax on direct controls is another result, namely, the widening of the non-monetized sector of

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[7]) Tax collections in kind appear to constitute an even larger share of agricultural production in several parts of China. The available estimates place the figure between 15 percent and 20 percent. (See "Structure and Taxation of Agriculture in China", by Joseph Froomkin, a paper prepared for the Conference on Agricultural Taxation and Economic Development, January 28-February 3, 1954, Cambridge, Massachusetts; to be published by the Law School of Harward University in the Conference proceedings.)

[8]) For example, see the report of Robert R. Nathan Associates, Inc., *op. cit.*, and the Report of the Special Representative of the President for Korean Economic Affairs, June 15, 1953 (Washington).

the economy. It is difficult to say whether this has, on balance, impeded or aided the immediate functioning of the economy. Over a longer period, however, an enlarged nonmonetized sector would certainly affect economic development adversely.

Finally, the system of tax collections in kind may have had more subtle effects — for example, it may have favored the production of staple over other crops, or it may have encouraged more intensive cultivation — but the experience has been too short to discern such changes.

LE RECOURS AUX IMPOTS EN NATURE POUR LA LUTTE CONTRE L'INFLATION DANS LA REPUBLIQUE DE COREE

PAR HASKELL P. WALD

RÉSUMÉ

En 1951 la République de Corée a changé son système de taxation agraire en passant des impôts en espèces aux impôts en nature. Cette innovation fut le plus important parmi quelques changements opérés durant cette année pour tenter d'adapter le système des recettes à l'état chaotique de l'économie et au niveau des prix qui montaient rapidement. En conséquence des modifications, les recettes fiscales se sont accreues substantiellement entre les exercices fiscaux 1949-1950 et 1952-1953. Ce progrès fiscal a contribué à freiner l'inflation l'année dernière.

Les changements introduits dans les taxations indirectes ont suivi les vicissitudes habituelles propres à une période de guerre. Les taux ont été augmentés et les impôts rendus applicables à des biens et à des prestations supplémentaires; ces changements s'harmonisaient avec les règles de sévère austérité imposées à la population. Dans le cas des impôts directs, l'impôt personnel sur le revenu est passé d'une base globale à une base cédulaire et le revenu de la production agricole a été exclu de son champ d'application. Plusieurs classes de revenus ont été imposées à des taux progressant à intervalles mensuels ou trimestriels sans qu'il soit prévu de revoir ces impositions en fonctions du revenu de toute l'année. Pareilles variations sont révélatrices d'une volonté délibérée de subordonner les considérations d'équité à l'intérêt qu'il y a d'obtenir une administration simplifée et une accélération des recettes fiscales.

Les modifications les plus importantes ont eu lieu dans le domaine de la taxation agraire. Les anciens impôts fonciers et sur le revenu agraire ont été remplacés par un impôt temporaire sur le revenu foncier dont les principales caractéristiques sont: (1) les terres sur lesquelles on récolte des aliments de base tels que riz, orge, blé et seigle, ont été taxées sur base de la production moyenne mentionnée au Cadastre; (2) les terres productives de légumes, fruits et ginseng, ont été taxées sur la base du revenu net exprimé en monnaie; (3) les taux d'impôt ont été gradués selon l'importance de la

récolte ou le montant du revenu net; (4) à titre de stimulant, aucune taxe additionnelle n'a été levée lorsque la productivité actuelle dépassait la moyenne; (5) aménagement de la taxe était consenti en cas d'indigence; (6) la taxe sur les terres à cultures de base devait être payée en nature et (7) à tous les contribuables était laissé le choix de payer en riz quelle que fut la nature de leurs récoltes.

Selon les statistiques des recettes pour l'année fiscale 1952-1953, plus de 95 % du produit de la taxe temporaire sur le revenu foncier ont été recueillis sous forme de céréales de base. Etant donné que le Gouvernement évalue ces créréales selon les prix bas portés aux tarifs officiels, le produit de la taxe est fortement sous-estimé dans les évaluations budgétaires. Si les recettes en nature étaient évaluées à des prix réellement marchands, cet impôt interviendrait pour plus des 2/5 dans la recette fiscale totale du Gouvernement national, telle qu'elle a été calculée pour l'année fiscale 1953-1954.

D'un point de vue fiscal le principal intérêt des impôts en nature est que leur produit ne perdra pas son pouvoir d'achat par l'effet de l'inflation persistante. Cependant le Gouvernement coréen a vu plus que des avantages fiscaux dans la méthode d'imposition en nature. A l'époque où la taxe a été mise en vigueur, le Gouvernement avait besoin de grandes quantités de céréales à distribuer à l'armée, à la police et pour l'assistance à la population, ainsi que pour honorer la ration de riz des familles dans les villes. D'autres grandes quantités étaient nécessaires parce que le Gouvernement et certains employeurs privés avaient adopté l'usage de payer les travailleurs partiellement en riz. Ce procédé offrait aux travailleurs l'avantage d'une clause d'échelle mobile dans leurs contrats de travail.

La méthode des impositions en nature a été un moyen direct pour mettre les céréales nécessaires à la disposition du Gouvernement. Elle a servi en outre d'instrument de politique économique nationale car avant que la nouvelle taxe ait été introduite le Gouvernement avait de grandes difficultés à obtenir les quantités requises de céréales.

SOME COMMENTS ON THE TAXATION OF PERSONAL INCOME AND EXPENDITURE IN THE UNITED KINGDOM, 1945-53

BY DAVID WALKER

Lecturer in Economics in the University of Manchester

In this paper I begin by summarising the main changes that have occurred since the end of the war in the relative importance of Income and Outlay Taxes as methods of taxing Personal Incomes and Expenditures. Then I discuss very briefly the advantages and disadvantages of these alternative forms of taxation. Finally I set out and examine the arguments that successive Chancellors of the Exchequer have used in support of the tax changes they have proposed and carried through.

I.

In recent years the importance of personal taxation [1]) in the tax structure as a whole has been more or less constant but within personal taxation there has been a quite remarkable shift in emphasis from Income Taxes to Outlay Taxes and this has led to the personal tax structure becoming much less progressive not only in a strictly technical sense but also in the sense that single people have gained at the expense of the married and the childless at the expense of the married couples with children. [2])

Tables 1 and 2 illustrate very clearly the first point made in the previous paragraph.

Personal Income and Expenditure taxation has been about 70 % of total taxation and the marked shift towards Outlay Taxation is shown up on the last line of Table 2, the ratio of Personal Income to Personal Outlay Taxation falling from nearly 90 % to under 60 %. In nearly every Budget since the end of the war Personal Income Tax rates have been reduced and Outlay Taxes increased.

Table 1:

Central and Local Government Taxation in the U.K. 1945-1952 (£ million)

(National Insurance contributions are excluded)

	1945	1946	1947	1948	1949	1950	1951	1952
Outlay Taxes on Consumption Expenditure	1336	1464	1675	1894	1841	1891	2023	2032
Outlay Taxes on Government, Investment & Export Expenditure	107	87	110	126	140	169	247	250
Total Outlay Taxes[3] .	1443	1551	1785	2020	1981	2060	2270	2282
Income Taxes on Personal Income	1186	1058	978	1026	1032	1016	1190	1218
Income & Profits Taxes on the Undistributed Income of Companies & Public Corporation	745	658	517	569	748	779	717	936
Total Income Taxes . .	1931	1716	1495	1595	1780	1795	1907	2154
Taxes on Capital . . .	119	143	164	215	254	190	194	159
Total Central and Local Government Taxation	3493	3410	3444	3830	4015	4045	4371	4595

Sources: National Income and Expenditure, 1948-'52 and earlier National Income White Papers.

Table 2:

The Taxation of Personal Income, Expenditure and Capital 1945-52

(National Insurance Contributions are excluded)

	1945	1946	1947	1948	1949	1950	1951	1952
Outlay Taxes on Consumption Expenditure as % of Total Taxation	38.2	42.9	48.6	49.5	45.9	46.7	42.3	44.2
Income Taxes on Personal, Income as % of Total Taxation	34.0	31.0	28.4	26.8	25.7	25.1	27.2	26.5
Personal Income and Expenditure Taxation as %of Total Taxation	72.2	73.9	77.0	76.3	71.6	71.8	69.5	70.7
Taxes on Personal Capital as % of Total Taxation	3.4	4.2	4.8	5.6	6.3	4.7	4.4	3.5
Taxes on Persons as % of Total Taxation . .	75.6	78.2	81.8	81.8	77.9	76.6	77.9	74.2
Income Taxes upon Personal Income as a % of Outlay Taxation on Consumption Expenditure	88.8	72.3	58.4	54.2	56.1	53.7	58.8	59.9

Sources: National Income and Expenditure, 1948-'52 and earlier National Income White Papers.

Table 3 shows the order of magnitude of the shifts from Income to Outlay Taxes in the various Budgets since the war.

Table 3:

Estimated Changes in the Yields of Outlay and Personal Income Taxes resulting from changes in tax rates 1945-'53. (£ million)

Budget	Outlay Taxes		Personal Income Taxes[A]	
	Current Year	Full Year	Current Year	Full Year
April 1946[B]	— 22	— 25	— 289	— 292
April 1947	+ 84	+ 92	— 76	— 87
November 1947	+ 31	+ 151	—	—
April 1948	+ 47	+ 47	— 85	— 103
April 1949	— 39	— 35	—	—
April 1950	+ 74	+ 81	— 72	— 82
April 1951	+ 61	+ 75	+ 33	+ 44
March 1952	+ 75	+ 80	— 180	— 229
April 1953	— 45	— 60	— 72	— 89
Total		+ 406		— 838

A. These are personal estimates as there is no official breakdown als between companies and persons.

B. Including here the changes introduced in the October 1945 Budget.

These figures are in current pounds and, therefore, are not strictly capable of being added. As, however, the change in the value of money and in the level of real output and consumption

Table 4:

Amount of tax paid and % of income taken in taxation of a married man with no children. All income earned

£ Income	1945-6		1949-50		1953-4	
	£ Amount of Tax	% of Income	£ Amount of Tax	% of Income	£ Amount of Tax	% of Income
300	42	14	10	3	3	1
400	81	20	34	8	13	3
600	171	27	90	15	52	9
800	261	33	162	20	108	13
1000	351	35	234	23	178	18
1500	576	38	414	28	353	24
2000	826	41	594	30	528	26
2500	1156	46	869	35	800	32

Source: Annual Financial Statements.

affects the yield of both Income and Outlay Taxes the two totals have some meaning in relation to each other.

The alterations in Income Tax rates that have occurred since the end of the war are set out in detail in an Appendix but we can illustrate the main trend by comparing the changing amounts of taxation payable by an individual earning the same income in different post-war years. Table 4 shows how much less onerous is the burden of Income Taxation now than it was at the end of the war for a married man with no children.

In contrast to the reduced Income Tax burden Table 5, indicates the considerable upward movement in the rates of some important Outlay Taxes. [4])

Table 5:

Rates of some major Indirect Taxes, 1945-6 = 100

Commodity	1949-5	1952-3	1945-6
Tobacco	100	164	164
Beer	100	112	111
Spirits	100	134	134
Hydrocarbon Oils	100	100	333
Purchase Tax	100	134	140
Average Local Rates England & Wales	100	121	140

I have said that the tax changes have benefited certain sections of the community. Table 6. presents some of the evidence that suggests this conclusion.

Table 6:

The Increases in the Disposable Income of various Income groups brought about by changes in Income Tax rates. (£s)

£ Income	Earned Income															Uncarned Income
	1945-49					1949-53					1945-53					1945-53
	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E	B
300	34	31	26	10	—	16	8	—	—	—	50	39	26	10	—	41
400	55	47	40	36	23	20	22	14	3	—	76	69	55	37	23	66
600	79	81	81	75	68	38	48	34	36	28	117	129	115	111	96	102
800	97	99	101	103	105	45	54	58	60	54	142	153	159	163	159	113
1000	116	117	119	121	123	47	56	68	78	81	163	173	187	199	204	123
1500	161	162	174	166	168	52	56	73	83	95	213	218	247	249	263	148
2000	231	232	234	236	238	57	56	78	89	100	288	288	312	325	338	173
2500	256	257	259	261	263	69	69	80	91	102	325	326	339	352	366	228

A. Single.
B. Married.
C. Married and one child.
D. Married and two children.
E. Married and three children.

Source: Financial Statements, 1945-53.

In the Table it can be seen that as between 1945 and 1949 and as between 1949 and 1951 the higher the pre-tax income the greater are the tax remissions. This is so for all family sizes. Comparing the tax remissions across family groups there are some remarkable contrasts. A single man with an income of £ 2500 a year received an increase in Disposable Income of £ 325 from 1945 to 1953 whereas a married man with three children earning £ 300 a year got no addition to his spending potential. As between individuals earning the same income, in some cases the aggregate increase is less for the man with dependants than it is for the man without; in no case is the increase for the man with dependants substantially above that of the single man.

It is also worth noting that the receiver of investment income has gained as well as those who earn their incomes. The last column of Table 6. shows the increases in Disposable Income 1945-1953 of a married couple whose income is derived from investments. At all incomes above £ 400 a year the gain of a married man with earned income is greater than that of a married man with investment income but the latter's improvement in Disposable Income is considerable.

There is little doubt that the post war Income Tax changes considered in isolation have made more unequal the distribution of post-tax income. The power to consume of the poorer sections of the community has been increased much less than that of the better off. Now if the only tax change had been a reduction in the Income Tax there would not perhaps be a strong case for noticing all this at the present time. By their very nature reductions in the Income Tax must tend to help the richer rather than the poorer members of the community for in the last resort one cannot increase the post tax income of a person who pays no Income Tax by reducing the Income Tax. In this context, however, it should be remembered that the Income Tax concessions in themselves may have resulted in an actual fall in the real consumption of the poorer classes. In the post war years there has been a substantial amount of inflationary pressure and the amount of goods available for consumption has been limited. An increase in Disposable Income (by tax reductions) with no consequential change in the amount of goods available for consumption will lead to a rise in prices and the fixed quantity of goods will be redistributed in accordance with the new distribution

of purchasing power. The net effect of such changes would be an increase in the real consumption of those who got the biggest tax reductions and a fall in the real standard of living of those who got little or none.

But, of course, the cuts in the Income Tax have only been part of the tax changes. The loss of revenue on the Income Tax front has been made up by the increased rates of the various Outlay Taxes.

It is commonly agreed amongst economists that Outlay Taxes are in general regressive taxes and in the particular case of the United Kingdom there can be no doubt at all that the generalisation is applicable. The important rôle of taxes upon Tobacco, Alcohol, Betting and Entertainments generally and of taxes that enter into general costs such as those on Petrol and Motor Vehicles, Local Rates and many Purchase Tax items is good evidence in support of this. [5])

The combination of the Income Tax reductions and the Outlay Tax increases have made the British Tax structure much more regressive than it was in 1945. It has also, of course, given enormous advantages to the man who does not drink, smoke, gamble, etc.

II.

In recent years economists as a class have tended to be supporters of Personal Income Taxes and opponents of taxes upon commodities. There are a number of reasons for this attitude though none of them is entirely convincing.

The claim of the "old welfare economists" that progressive taxation imposed a smaller burden upon the community as a whole than proportional or regressive taxation has had some influence. As Income Taxation is typically less regressive than Outlay Taxation the above argument was one in favour of Income Taxation. It is now generally appreciated that one cannot prove or demonstrate that progressive taxation imposes a greater or a less burden upon the community than any other form of tax system. This, of course, does not mean that a man cannot or should not believe in progressive taxation or that he should not try to convince others of the rightness or wrongness of it, but it does imply that there is no scientific, objective, a-moral truth that can be demonstrated. [6])

Economists have also argued against Outlay Taxes and in favour of Income Taxes on the ground that Outlay Taxation distorts consumers' choices as between goods and therefore imposes an excess

burden upon the individual tax payer (or upon the community) as compared with that imposed by raising the same amount of money by an Income Tax. This view has also been exploded and the best opinion on these matters is that purely theoretical reasoning cannot demonstrate the superiority of Income Taxes and the empirical knowledge about individuals' indifference maps that would be needed to establish a "correct" view is obviously unobtainable. [7])

The regressiveness of Outlay Taxes has led to their being unpopular with those economists who argue that regressive taxation makes it more difficult to maintain full employment and is therefore bad. The argument here is that a given pound of taxation can have a different effect upon the taxpayer's consumption demand for real resources depending upon his marginal propensity to consume. A progressieve tax — the argument runs — is more likely to be paid out of savings than a regressive one, (for in the last analysis an individual who currently saves nothing and has no stock of wealth will be forced to reduce his demand for consumption goods) and therefore a progressive tax structure is likely to be less deflationary than a regressive one raising the same amount of revenue. Leaving aside the quite reasonable point that the Marginal Propensity to Consume is probably more or less the same at different income levels [8]) the argument we have set out above clearly does not constitute a universally valid argument for a progressive tax structure and Income Taxes. If a government were faced with an inflationary problem and if it wished to deal with it, there would surely be something to be said for a regressive tax structure and possibly for Outlay Taxes.

Some economists have also objected to Outlay Taxation because they believe that it hides the tax burden and therefore makes for irresponsible behaviour by the consumer of government expenditures. As H.O. Meredith once put it: "the most dangerous idea we have inherited from the past is that Indirect Taxes are desirable because men do not feel they are paying them". [9]) This argument is open to question on two points. Firstly, it is by no means certain that taxpayers do feel Income Taxes more than Indirect Taxes and, secondly one cannot be certain that it is always wrong to hide taxation. At times — if not always — a government knows better than the taxpayer the appropriate part of his income that the taxpayer should consume in the form of collective goods.

Another argument in support of Income Taxes is that as their formal and effective incidence can be calculated more easily than that of most Outlay Taxes, the government and the legislature is enable to apportion more easily and exactly the tax burden in the way it considers appropriate. In part this is true — though our

knowledge of its effects on the amount of work done is negligible — but it has to be recognised that this does not necessarily ensure that equity or justice is done.

In addition to the points against Income Taxes that we have made above the supporters of Outlay Taxes have put forward four positive arguments in favour of this form of taxation. If it is desired for any of a variety of reasons to reduce the consumption of some particular commodity an Outlay Tax is the only appropriate fiscal weapon. Secondly there is the traditional argument in favour of taxes upon commodities i.e. that they are cheaper to collect and more difficult to evade than Income Taxes. It has always been agreed that to administer an Income Tax successfully requires a highly skilled Civil Service and the population's active or passive acceptance of the tax. The third positive argument in favour of Outlay Taxes is that they exempt saving from taxation and therefore are an encouragement to thrift. Income that is saved pays no tax. Lastly there is the claim that Outlay Taxes are good because they are voluntary taxes. So long as taxes are not put on food or clothing but are levied mainly on so-called non-necessities, they have the advantage that as no-one need pay the tax the fact that some choose to do so shows that they do not mind paying it. This argument has enormous influence with ordinary people but the whole it has been spurned by economists on the ground that though it is true for the individual it is not true for the community as a whole. But of course this is just the point: Some people *do* choose to pay and some do not. Though at first glance it seems unjust that Drinkers, Smokers etc. should pay much heavier taxes than individuals who do not smoke or drink, it has to be recognised that equity in taxation is a relative matter and it cannot be proved nor is it intuitively obvious that more injustice is done by allowing some individuals to pay a lot of tax by smoking and drinking and others to pay little by abstaining, than if people in the same income group — some with expensive tastes and some ascetics — are compelled to pay the same amount of tax. Professor Tress has recently summed up this argument in an admirable way: "The case for the heavy taxation of tobacco and drink is as Adam Smith said long ago that such goods are not to be classified amongst the prime necessities of life and payment of taxation on them is therefore optional to those who having the income to spare can afford to indulge in their purchase — a crude argument but possibly no cruder than the Income Tax itself can be in its insensitiveness to the individual." [10])

The upshot of this brief survey of the arguments for and against Income Taxes as a way of taxing Personal Incomes is inconclusive.

One thing can be done only by the Income Tax i.e. positive action to limit the inequality of the distribution of pre-tax income but this is not the be all and end all of taxation and we have seen that at certain times and for various reasons there may well be a case for substituting Outlay Taxes for Income Taxes. The shift in tax emphasis in the post war years should not be condemned on a priori grounds.

III.

Post-war Chancellors of the Exchequer have used the following arguments to support the tax changes that we noticed in Section I. The Income Tax reductions have been put forward primarily as incentive measures, i.e. as likely to lead to an increase in the amount of work done and in real output. The increases in Outlay Taxes have been supported, firstly, on the ground that it was necessary to reduce the consumption of certain particular commodities and, secondly, on the more general ground that aggregate consumption had to be cut in order to free goods for the export market.

Here are quotations of more or less similar substance from the three post-war Chancellors of the Exchequer who have reduced Income Taxation. [11])

Introducing his October 1945 Budget Dr Dalton said: "there is plenty of evidence to show that the Income Tax has depressed morale, reduced incentive and has in the aggregate diminished production. To this extent it has been a bad tax." [12]) And in his speech winding up the debate he said: "I have no doubt that in seeking to give incentives — as I have sought — people are much more stimulated by getting something off the Income Tax than they would be by my sacrificing an equal amount of revenue in making beer or tobacco a little cheaper." [13])

Sir Stafford Cripps also used the incentive argument. Introducing his first Budget in 1948 he said: "It is very generally agreed that the incidence of Income Tax upon the medium paid wage earner and lower salaried worker is such as to act as a disincentive to greater efforts in production." [14]) And in his last Budget, that of 1950, he supported his Income Tax changes with the following words: "this reduction will be concentrated upon the block of income which includes practically all overtime and so will still further reduce tax on overtime." [15])

Mr Butler reduced the Income Tax in his 1952 and 1953 budgets. In the first he argued that "a true and lasting solution for our present troubles can be found only through increased production

and harder work" and said: "I am convinced that the present weight of Direct Taxation particularly on the lower and middle income groups acts as a positive discouragement to extra effort." [16]) And in his second he argued along similar lines: "I have already referred to the numbing effect of excessive direct taxation. We must banish the hopeless feeling that extra effort is not worthwhile." [17])

Let me now illustrate the twin arguments used by the four post war Chancellors of the Exchequer to support the enormous increases in Outlay Taxes. Dr Dalton arguing the case for a sharp increase in the Tobacco Duty in April 1947 said: "About 80 % of our tobacco is imported from the U.S. and to satisfy this insatiable demand we are drawing heavily and improvidently on the dollars which we earn with our exports as well as on the proceeds of the American line of credit. It is hardly to be believed that the total of our exports to the U.S. at this time barely exceeds in value our own consumption of American tobacco. The thing has become fantastic and must be stopped." [18])

In my next extract Dr Dalton is defending his doubling of Purchase Tax Rates in the 1947 November Budget. This quotation is indicative of an intention to use Outlay Taxes as a means of controlling consumption demand in general: "Not only will they bring in this substantial revenue and so eliminate to this extent the inflationary pressure but they will discourage various forms of expenditure which on their present scale we cannot afford in this time of emergency." [19])

In his Budget of 1950 Sir Stafford Cripps increased the tax upon Petrol and imposed for the first time Purchase Tax upon Commercial Vehicles. He supported these changes as follows. Referring to Petrol he said: "We have here a commodity costing us a great many dollars; where demand at present prices exceeds supply; where the rate of tax has not been increased since before the war." [20]) And defending the levying of Purchase Tax upon commercial vehicles he said: "It has been found that despite all the efforts to control the number of these vehicles going on the home market by administrative methods the excessive volume of home sales has continued and so it has been decided to adopt fiscal measures to help to restrict demand on the home market and assist the industry to achieve the desired diversion of output to exports" [21])

In 1951 Mr. Gaitskill increased the rates of Purchase Tax and argued that "the aim of Purchase Tax is nowadays to a large extent the raising of revenue and the withdrawing of spending power to check inflationary tendencies." [22])

In 1952 Mr. Butler increased the Petrol Tax and he supported his proposals on Balance of Payments grounds: "Since the main objective of the Budget is to relieve our Balance of Payments difficulties I must pay particular attention to a scarce product which costs us foreign exchange. I have considered and rejected rationing. I propose instead to raise by 7½ d a gallon the Customs Duty on Petrol and other Light Oils and on heavy oil used as road fuel." [23])

IV.

It is well known that there is no simple relationship between changes in tax rates and in the amount of work done. *A priori* analysis cannot tell us whether a change in tax rates will lead to more work being done or less as in the normal case the income and substitution effects of a change in the rate of return work in opposite directions. It follows that unless we know the actual shape of individuals' preference maps with respect to work and leisure it is not possible to predict their reaction to a change in tax rates. [24])

This of course does not mean that the normal belief that the Income Tax has a disincentive effect is wrong but it does imply that such a statement is not obviously true and it must, therefore, be backed by supporting evidence. Indeed there is reason to suppose that the Income Tax does not have such serious disincentive effects as has often been supposed. The Trades Union Congress in the memorandum that they submitted to the Royal Commission on the Taxation of Profits and Income stated: "There can be no doubt that there is some truth in these allegations (i.e. about the disincentive effects of Income Tax) but we are of the opinion that they have been exaggerated. There is very little detailed evidence about the effects of Income Tax on incentives and production and certainly not enough to justify dogmatic generalisations. We can submit no evidence to show conclusively that Income Tax in general discourages the working of overtime or the introduction of schemes for payment by results" [25]. And in reply to a question put to them by the Chairman of the Commission the representatives of the T.U.C. replied: "Quite definitely we have no positive evidence that Income Tax is a reason for not working overtime." [26]).

The evidence of the T.U.C., obviously a body of men who should have some knowledge about this particular subject, had an important influence upon the members of the Royal Commission. During the interrogation of the T.U.C.'s representatives the Chairman remarked "So far I do not think we have had any written evidence from, say, any owner or controller of a big business involving a lot of people who has come to say "I cannot get my men to work over-

time, I do not think we have evidence of anything so defenite as that." [27]). A distinguished economist member of the Commission, Professor J. R. Hicks, after hearing the T.U.C.'s evidence about the relatively minor effects of Income Tax upon incentives said: "If that is so it rather settles the question without going any further and those who are going to maintain the opposite point of view have something to explain." [28]).

We stressed at the start of this section the impossibility of purely theoretical reasoning demonstrating the effect upon the amount of work done of a change in tax rates. Some useful conclusions can, however, be reached by comparing certain alternative possibilities. If a government contemplates changing — say reducing — the effective or average rate of tax on a particular individual we can say that a tax change reducing the average rate but leaving the marginal rate more or less unchanged will have a less good effect upon incentives than the same reduction in the average rate combined with a substantial reduction in the marginal rate. Similar reasoning applies in reverse. An increase in the effective rate will lead to less work being done if it is combined with an increase in the marginal rate of tax than if it is not so combined.

The above point can be put as follows. It has been decided to reduce the average rate of tax upon some particular income group from 4/- in the pound to 3/- in the pound. Now this change can be brought about in a way that substantially reduces the marginal rate or in a way that does not. Our argument is that the former will lead to a greater amount of work being done than the latter.

In the light of the above analysis it can be shown that the Income Tax reductions since the end of the war have not been chosen as well as they might have been — assuming of course that the provision of greater incentives was the main consideration. Table 7. illustrates this. Take first individuals earning more than £ 2000 a year. In the period 1945-53 the government sacrificed large sums of tax revenue from these income groups and yet there has been a negligible reduction in the appropriate marginal rate of tax. In such circumstances one would not be surprised if a man worked less hard. An individual earning £ 10,000 a year has £ 519 extra spending money in 1953 than he had in 1945. The income effect is tending to make him work less hard and yet his marginal rate of tax has fallen by ninepence so that the earning of an extra pound yields him 2/6d instead of 1/9d — hardly a significant alteration. My first point then is that surtax payers as a group — a very important section of the community — have not had any very great incentive from the tax changes to increase their incomes — indeed the opposite effect is a distinct possibility.

Table 7.

Married Man with no children — All Income Earned

Income £	MARGINAL RATE					AVERAGE RATE					LOSS OF REVENUE £			% REDUCTIONS IN REVENUE		
	1945-6	1946-7	1951-2	1952-3	1953-4	1945-6	1946-7	1951-2	1952-3	1953-4	1945/6-1946/7	1951/2-1952/3	1945/6-1953/4	1945/6-1946/7	1951/2-1952/3	1945/6-1952/3
300	5/10	5/3	4/5	2/4	1/11	2/10	1/2	—/6	—/3	—/2	25	4	40	59	57	95
400	9/—	7/10	4/5	4/3	3/11	4/—	2/6	1/5	—/9	—/7	31	14	68	38	48	84
500	10/—	9/—	4/5	4/3	3/11	5/—	3/7	2/—	1/5	1/3	36	14	94	29	27	75
600	10/—	9/—	7/7	5/10	5/5	5/8	4/3	2/8	1/11	1/9	42	22	118	25	27	69
800	10/—	9/—	7/7	7/5	7/—	6/6	5/2	3/11	2/11	2/8	53	39	153	20	25	59
1000	10/—	9/—	7/7	7/5	7/—	7/—	5/9	4/8	3/10	3/6	65	41	173	18	18	49
1500	10/—	9/—	7/7	7/5	7/—	7/8	6/8	5/8	5/—	4/8	76	46	243	13	11	42
2000	12/—	11/—	11/6	11/6	11/—	8/3	7/3	6/1	5/7	5/3	101	52	298	12	8	36
2500	12/3	11/6	12/—	12/—	11/6	9/—	8/—	7/2	6/9	6/5	176	55	326	16	6	29
5000	15/—	14/6	15/—	15/—	14/6	11/3	10/4	10/2	10/—	9/6	220	55	419	8	2	15
10000	18/3	17/6	18/—	18/—	17/6	13/8	13/—	13/2	13/1	12/7	320	55	519	5	0.8	8

It is not easy to be as dogmatic about the other income groups. We have seen earlier that the two largest reductions in Income Tax occurred between 1945/6 and 1946/7, and 1951/2 and 1952/3. Each of these tax changes led to a substantial fall in revenue and to significant alternations in the average rate of tax. Yet the marginal rate was relatively unaffected. In the 1945/6-1946/7 instance a comparitively small block of taxpayers had their marginal rates substantially reduced and in 1951/2-1952/3 the picture is much the same.

When the figures over the whole period are examined a similar conclusion emerges. At incomes between £ 800 and £ 2000 a year the marginal rate falls by about a third and the average rate and the total amount of tax paid by about a half. Incomes below £ 800 benefited from the tax changes of 1947, 1948 and 1950 which is indicative of the important effect on marginal rates of quite small reductions in tax revenue if they are designed with this end in view.

The position of the lower paid workers can be presented in another way. Between 1945 and 1953 wages increased substantially and this should be taken into account when comparing the rates of taxation. Table 8 presents such data.

Table 8.

The Estimated Marginal and Average rates of tax payable by a married man with no children earning the average wage of a manual worker.

Year	Income *)	Average Rate (shillings in pound)	(shillings in pound) Marginal Rate
1945-6	305	2/10	5/10
1946-7	318	1/10	5/3
1949-50	372	1/7	4/11
1951-2	434	1/6	4/5
1952-3	468	1/4	4/5
1953-4	490	1/3	3/11

*) These figures are personal estimates derived from the Ministry of Labour Earnings enquiries.

The incomes set out are estimates of the average yearly income of manual workers. In 1945/6 the earning of an extra pound increased the tax payer's disposable income by 14/2 and 1953/4 bij 16/1. There is no enormous change in marginal rates of tax and one would not

expect these changes to have led to any great increase in the amount of work done.

The conclusion that emerges from this brief examination of the postwar Income Tax changes is that if the desire to give incentives has been paramount the choice of tax alterations has been inept. It would have been possible to have substantially reduced marginal rates and yet bring in the same amount of revenue. What seems probable is that there were other reasons beside the incentive one behind the Income Tax reductions and that these reasons determined the scope and type of the tax changes.

So far we have discussed the incentive argument only with respect to the Income Tax changes. Outlay Taxes, however, can have as unfavourable an effect upon incentives as the Income Tax. If revenue from an extra hour's work is 4/- reduced to 2/6d by income taxation is that very different from allowing the worker to keep his 4/- but increasing the tax on his marginal purchases correspondingly, perhaps by making the price of a 2/6d packet of cigarettes into 4/-? Unless we postulate an extreme form of money illusion the worker must ultimately realise that in either case the reward for one hour's extra work is a packet of cigarettes.

It is however not easy to make an Indirect Tax system progressive and there is therefore a limitation on the tax rates that can politically be imposed as the marginal rate must be the same as the average rate. If Indirect Taxation is typically better from the point of view of incentives than Income Taxation it is because it is less progressive.

An extension of this argument might persuade one to support the post-war tax changes on incentive grounds. If the demand for the taxed goods is inelestic this will so reduce the real income of taxpayers as to encourage them to work harder. This is particularly likely if the Outlay Tax increases are combined with a reduction in the marginal rate of Income Taxation.

On the whole I would argue that the tax changes since the war have had a small effect upon incentives and that any favourable effects have been due to the slight reduction in marginal rates combined with the maintenance of effective rates. Now it would have been possible to do this by adjusting the Income Tax system as a whole and we cannot therefore account for or explain the shift from Income to Outlay Taxes by this argument.

V.

It is clear that the sharp increase in the Tobacco Duty in 1947 reduced the consumption of Tobacco considerably [29]) and it is

pretty obvious that no other fiscal change could have brought this about so expeditiously. In this case the argument for Outlay Taxes on the ground that they are the only way to reduce the consumption of particular commodities is clearly valid.

There is no such strong or conclusive evidence as regards the other Outlay Tax changes. No close and obvious relation exists between the demand for Petrol, Entertainments, Purchase Tax goods and the changes in the tax rates applicable to these commodities.

Obviously the increase in Outlay Taxes did reduce the real demands of the consumption sector upon resources but we have no reason to think that appropriate Income Tax changes would not have done the job as efficiently. Indeed it is arguable that Indirect Taxes have a more direct effect upon wage demands and therefore tend on this count to be less disinflationary than Income Taxes.

VI.

In general the tax changes since 1945 have substituted Outlay for Income Taxes and have been regressive. In itself the regressive trend condemns them in the eyes of some and justifies them in the eyes of others.

It is not certain whether the reduction in progression was planned or unintentional. If planned then it and the shift from Income to Outlay taxes could be defended for the following reasons. The more regressive the tax structure the greater the reduction in demand upon real resources per pound of tax revenue. The changes in progressiveness though not necessarily the shift to Outlay Taxes could be defended on this ground. The fact that Outlay Taxation discriminates in favour of saving is relevant here. We have also seen that a regressive tax system raising the same amount of money as a more progressive one is likely to have a better incentive effect.

Given that the Government desired to reduce the progressiveness of the tax structure while maintaining or increasing the revenue raised in taxation there cannot be much doubt that it was politically much easier to do this by reducing the Income Tax and increasing Outlay Taxes than by adjusting the Income Tax structure

In part this is because it is less easy to calculate and understand the formal incidence of any Outlay Tax, which means that the government finds it easier to conceal what it is doing and so

avoid opposition. The main reason for the political attractiveness of Outlay Taxation, however, is its popularity.

For one reason or another — rational or irrational — the electorate does not like Income Taxes. This dislike for Income Taxes is no new phenomenon. Mill in the *Principles* writes, "In England there is a popular feeling in favour of Indirect — or rather in opposition to Direct Taxation. An Englishman dislikes not so much the payment as the act of payment. Perhaps, too, the money which he is required to pay directly out of his pocket is the only taxation which he is quite sure that he pays at all." I have little doubt that Outlay Taxes are preferred to Income Taxes both by those who do not indulge in the taxed articles (which is understandable) and by those who do (which is not). This preference is in part due to the possibility of easy avoidance and the apparent voluntary nature of the tax. It is difficult to condemn high rates of taxation upon luxuries when it is obvious that to some extent at any rate the burden is one voluntarily undertaken[30]). I incline to the view, however, that the preference is indicative of some sort of perversion: people seem to have guilt complexes about their smoking and drinking and seem to think it right and proper that they should be taxed on these indulgences. It is indeed remarkable to contrast the opposition to the Income Tax, to Local Rates and to the Purchase Tax (which is not a tax on wickedness!) with the docility of the gambler, smoker and drinker — even though the taxes on the latter are exceptionally regressive and in principle no doubt the more progressive is preferred to the less progressive by most taxpayers.

Personally, however, I believe that the reduction in progressiveness has been to a substantial extent the accidental and unintended effect of the carrying out of certain positive proposals desired on their own merits.

For a variety of reasons post war governments have wanted to reduce the Income Tax; because they believed (rightly or wrongly) that it had disincentive effects; for administrative reasons[31]); for political purposes, in that they wished to benefit the "floating voter"; or because it was unpopular.

The increases in Outlay Taxes are best interpreted as *ad hoc* measures to meet particular problems and shortages.

I do not think there is much evidence to suggest that post war governments have pursued a conscious policy of making the tax sytem more regressive. There can, however, be little doubt that this has been the result of their policies. The surprising thing is the extent of the acceptance within each of the two great political parties of the policies pursued by their leaders.

Appendix

The Main Income Tax Rates and allowances 1945-53

	1945-6	1946-7	1947-8	1948-9 -50	1950-51	1951-2	1952-3	1953-4
Standard Rate	10/-	9/-	9/-	9/-	9/-	9/6	9/6	9/-
Allowances								
Single	£ 80	£110	£110	£110	£110	£110	£120	£120
Married	£140	£180	£180	£180	£180	£190	£210	£210
Child	£ 50	£ 50	£ 60	£ 60	£ 60	£ 70	£ 85	£ 85
Earned Income								
Rate	1/10	1/8	1/6	1/5	1/5	1/5	2/9	2/9
Maximum	£150	£150	£250	£400	£400	£400	£450	£450
Reduced Rates	6/6 on £165	3/- on £ 50	3/- on £ 50	3/- on £ 50	2/6 on £ 50	3/- on £ 50	3/- on £100	2/6 on £100
		6/- on £ 75	6/- on £ 75	6/- on £200	5/- on £200	5/6 on £200	5/6 on £150	5/- on £150
							7/6 on £150	7/- on £150

Rates of Surtax

£ £	1945-6	1946-51	1951-4
2000— 2500	2/-	2/-	2/-
2500— 3000	2/3	2/6	2/6
3000— 4000	3/3	3/6	3/6
4000— 5000	4/3	4/6	4/6
5000— 6000	5/-	5/6	5/6
6000— 8000	5/9	6/6	6/6
8000—10000	7/-	7/6	7/6
10000—12000	8/3	8/6	8/6
12000—15000	8/3	9/6	9/6
15000—20000	9/-	10/-	10/-
over 20000	9/6	10/6	10/-

NOTES

1. We follow the National Income statisticians in distinguishing between personal and other taxation. Taxation levied upon Personal Incomes, Personal Consumption Expenditure and Personal Capital is regarded as Personal Taxation, whereas that levied upon the undistributed income of companies and public corporations and upon public, export and investment expenditure is not regarded as Personal Taxation. There is one complication. In practice many Boards of Directors fail to distinguish between the Income Tax that they pay upon undistributed income and that which they pay as agents for the Board of Inland Revenue upon the profits that they distribute. In principle, however, a distinction should be made and for the purposes of this paper the latter payments are regarded as personal rather than as company tax payments.
2. It might be argued that these classes, though hit by the tax adjustments of 1945-53, have been the chief gainers from the Welfare State legislation of the same period. In part this is true. Spending on education, food subsidies, health etc., benefits the poor and those with children rather than the rich and the unmarried. This, however, is irrelevant with respect to the argument in the text for it would have been possible to have had the Welfare State legislation with the 1945-6 type of tax structure. In discussing changes in the tax pattern it is convenient to ignore government expenditure; to study — in the terminology of R. A. Musgrave ("On Incidence", Journal of Political Economy, 1953) — Differential Incidence, that is to say the effects of the substitution of one tax for another tax of equal yield assuming the level and distribution of government spending to be independently determined.
3. The relative importance of the various Outlay Taxes is indicated in the following Table (all items in £.million): —

	1946	1947	1948	1949	1950	1951	1952
Beer	276	261	305	286	266	261	257
Wines and spirits	88	95	121	115	120	128	124
Tobacco	438	541	598	600	602	622	612
Purchase Tax	161	217	300	282	299	338	313
Entertainments	55	49	49	44	44	45	45
Betting	—	—	20	26	25	26	28
Hydrocarbon Oils	56	57	57	62	125	200	260
Motor Vehicle Duties	44	50	49	53	57	64	65
Stamp Duties	35	50	58	53	52	62	52
Local Rates	269	307	317	326	338	363	391
Other	129	128	146	134	132	161	135
Total	1551	1785	2020	1981	2060	2270	2282
Persons	1282	1478	1703	1655	1722	1907	1891
Nonpersons	269	307	317	326	338	363	391

Sources: National Income and Expenditure, 1948-52
and earlier National Income White Papers.

4. Note the opposite movement in effective Income Tax rates shown below: —

Average Rate of Income Tax applicable to a married man with no children. All Income earned. 1945-6 = 100.

Income £s	1945-6	1949-50	1952-3
250	100	11.3	—
500	100	46.3	28.9
700	100	58.1	40.5
1000	100	66.3	54.4
1500	100	71.7	65.2
2000	100	72.2	68.2
2500	100	77.3	75.5
5000	100	87.4	88.9
10000	100	93.3	95.7
50000	100	98.8	99.8

5. There has been no full scale examination of the Formal Incidence of the British Tax structure since Shirras and Rostas published their important volume in 1942 (The Burden of British Taxation, Cambridge University Press). They examined the two fiscal years 1937-8 and 1941-2 and found that all the Outlay Taxes were regressive and the important ones markedly so. In particular the chief revenue earners were regressive from the very bottom of the income scale. See Table 9 of their volume for a good summary of the results.

In a later study by F. Weaver ("Taxation and Redistribution in the U.K.", Review of Economics and Statistics, August 1950) post war figures are produced which show clearly how much more regressive Outlay Taxation is than Income Taxation. Mr. Weaver divides individuals into three groups: working class (those with incomes below £ 500 a year in 1948); middle class (£ 500-2000 a year) and the wealthy (individuals with more than £ 2000 a year in 1948). The following Table summarises some of his conclusions:

The Taxation of Personal Income and Expenditure

	1947	1948	1949
Outlay Taxation paid by Working Class as % of Total Outlay Taxation	69	68	68
Personal Income Taxation paid by Working Class as % of Total Personal Income Taxation	24	18	18

It is clear that a reduction in Income Taxation with a corresponding increase in Outlay Taxation will tend to make the tax system more regressive.

Colin Clark in a recently published pamphlet gets a similar result for 1951 (Welfare and Taxation, The Catholic Social Guild, March 1954). He divides the community into three groups. Firstly those with more than £ 750 a year. Secondly, the lower middle class, with incomes from £ 400 to £ 750 a year and, lastly, the working class with incomes up to £ 600 a year. There is an overlap between the lower middle class and the working class because he takes into account not only income but the position and social status of the income earner. The results of his investigation may be summarised as follows:

Distribution of Tax Burden in 1951 (£ million)

Totals	Tax Paid by		
	Group 1	Group 2	Group 3
Personal Income Tax			
1150	900	100	150
	78 %	8.5 %	13.5 %
Personal Outlay Taxation			
2426	534	488	1404
	22 %	20 %	58 %

Once again it is clear that a shift from Income to Outlay taxes will tend to increase the regressiveness of the Tax system.

6. Readers as yet unconverted to this point of view should consult a recent brilliant study by W. J. Blum and Harry Kalven, *The Uneasy case for Progressive Taxation;* University of Chicago Press, 1953.
7. See: I. M. D. Little, "Direct Versus Indirect Taxes", Economic Journal, September 1951 and Rolph and Break, "The Welfare Aspects of Excise Taxes", Journal of Political Economy, 1949.
8. See: Musgrave and Painter, "The Impact of Alternative Tax Structures on Personal Consumptions and Saving", Quarterly Journal of Economics, 1948.
9. H. O. Meredith, "Rates and Taxes", Economic Journal, 1939.
10. R. C. Tress, "Trends in Public Finance", Lloyds Bank Review, July, 1953.
11. Dr. H. Dalton and Sir Stafford Cripps of the Labour Party and Mr. R. A. Butler of the Conservative Party.
12. H. C. Debates, Vol. 414, Col. 1892.
13. H. C. Debates, Vol. 414, Col. 2305.
    In April 1946 when the tax concessions of the October 1945 Budget were about to come into effect Dr. Dalton was able to introduce further Income Tax changes and again he harped on the incentive theme: "Putting the hope of incentive above the fear of inflation I propose to increase the earned income allowance of 1/10 to 1/8 subject to the present maximum of £ 150" (H. C. Debates, Vol. 421, Col. 1832) and later in the same debate he said: "When I came to the Treasury I formed the view that of all the taxes which were causing irritation, were holding back production and — in peace — were increasingly difficult to justify — Income Tax, particularly on the smaller In-

comes, stood easily first (H. C. Debates, Vol. 421, Col. 2198). Announcing the Income Tax concessions of the April 1947 budget he said: "This relief will give every worker an additional incentive" (H. C. Debates, Vol. 436, Col. 73).

14. H. C. Debates, Vol. 449, Col. 74. Later in the same speech he said: "I cannot think that anyone will now have a just cause to complain that he is held back from increased effort on the score of the Income Tax burden." (H. C. Debates, Vol. 449, Col. 77).
15. H. C. Debates, Vol. 474, Col. 77.
16. H. C. Debates, Vol. 497, Col. 1302.
17. H. C. Debates, Vol. 514, Col. 60
18. H. C. Debates, Vol. 436, Col. 87.
19. H. C. Debates, Vol. 444, Col. 407.
20. H. C. Debates, Vol. 474, Col. 74-75.
21. H. C. Debates, Vol. 474, Col. 73.
22. H. C. Debates, Vol. 486, Col. 858.
23. H. C. Debates, Vol. 497, Cols. 1294-1295.
24. See Lionel Robbins, "On the Elasticity of Income in Terms of Effort", Economica, 1930.
25. Memorandum submitted to the Royal Commission on the Taxation of Profits and Income, (Day 10), Para. 9.
26. Question 2684 (Day 10).
27. Question 2684 (Day 10).
28. Question 2758 (Day 10).
29. Consumers' expenditure on Tobacco moved as follows 1946-52. (£ million at 1948 market prices). 910, 795, 764, 739, 768, 781.
30. On the whole the main increases in Outlay Taxes have been upon commodities recognised as non-necessities. The one important exception has been Petrol which does of course enter into general costs of production. In this case, however, there is (or at any rate there was till very recently) a widespread feeling among the "masses" that the tax was one upon private consumption motoring and was therefore levied upon luxury spending.
31. Unless the rates of Income Tax had been reduced the Inland Revenue Department might have been overwhelmed with work. The following table gives the number of income taxpayers in the postwar years:

Year	Number of Income tax Payers (millions)
1943-4	13.5
1944-5	14.5
1945-6	15.3
1946-7	14.0
1947-8	14.6
1948-9	14.5
1949-50	15.0
1950-51	15.8
1051-52	16.0
1952-53	15.5

QUELQUES COMMENTAIRES SUR LA TAXATION DU REVENU DES PARTICULIERS ET DES DEPENSES AU ROYAUME-UNI DE 1945 À 1953

PAR DAVID WALKER

L'auteur constate que si l'impôt sur les particuliers a conservé le plus souvent la même proportion de la taxation totale durant les années d'après-guerre, il y a cependant eu un remarquable changement en ce sens que les augmentations ont affecté moins les impôts sur le revenu que les taxes sur les dépenses. Le rapport de l'impôt sur le revenu des particuliers à l'impôt sur les depenses des particuliers est tombé de près de 90 % à moins de 60 %. Ces changements dans la structure de l'impôt ont eu comme effet de rendre son mécanisme bien plus régressif, non seulement au sens strictement technique, mais aussi au sens que les célibataires ont profité des dépenses des gens mariés et les ménages sans enfants de celles des couples avec enfants.

L'auteur donne à entendre, après un aperçu des arguments concernant les taxes sur le revenu et les taxes sur les dépenses comme méthodes de taxation des revenus des particuliers, qu'aucune des deux n'est nettement supérieure à l'autre. Il n'y a qu'une chose que seul l'impôt sur le revenu sait réaliser, à savoir: une action positive tendant à réduire l'inégalité des revenus. Mais ceci n'est pas le but unique d'une politique fiscale et très souvent il y a lieu de substituer des taxes sur les dépenses aux taxes sur le revenu.

Les Chanceliers de l'Echiquier d'après-guerre ont soutenu les diminutions de l'impôt sur le revenu avant tout comme un stimulant et ils se sont faits les avocats de modifications à la taxe sur les depenses en se fondant d'abord sur leur nécessité pour réduire la consommation de certains biens déterminés et ensuite d'une manière plus générale sur la nécessité de réduire la consommation dans son ensemble de manière à libérer des marchandises pour le marché d'exportation.

L'auteur constate que les changements de la taxation ont eu un effet stimulant relativement minime et qu'on ne peut expliquer sur cette base la substitution des impôts sur le revenu par des taxes sur les dépenses puisque, d'une part, les effets favorables ont probablement été obtenus en maintenant les taux en vigueur tout en réduisant légèrement les taux marginaux et que, d'autre part, le même effet aurait pu être produit en rajustant le mécanisme de l'impôt sur

le revenu. L'augmentation accentuée de la taxe sur le tabac en 1947 a considérablement réduit la consommation, mais il n'existe pas de preuves aussi fortes ou aussi démonstratives lorsqu'on considère les autres modifications de la taxation sur les dépenses. Au demeurant, même si l'augmentation générale des taxes sur les dépenses a réduit la demande de biens dans le secteur de la consommation, nous n'avons pas de raison de penser que des impôts sur le revenu appropriés ne seraient pas arrivés au même résultat.

Il est incertain si la diminution de la progressivité du système fiscal a été l'objet d'un plan ou si au contraire elle n'a pas été préméditée. Dans la première hypothèse l'auteur considère que l'accent a passé de l'impôt sur le revenu aux taxes sur les dépenses parce qu'il était politiquement bien plus facile d'agir en ce sens. Il croit cependant que la diminution de la progressivité a été plutôt la résultante accidentelle de la mise à exécution de certaines décisions prises en raison de leurs avantages intrinsèques.

„Introduction aux Fonds de Placement" (Investment-Trusts), par R. Larcier, Editions de la Librairie Encyclopédique, 7, rue du Luxembourg. Bruxelles.

Cet ouvrage, que viennent de publier les Editions de la Librairie Encyclopédique, s'inscrit dans le cadre des études poursuivies actuellement de toutes parts, et dont le but est de rechercher les moyens à mettre à la disposition du marché financier pour lui rendre toute son activité et pour améliorer la mobilisation des capitaux considérables nécessités par le développement des industries en Europe et Outremer. Les fonds de placement ou Investment-Trusts ont connu un succès considérable dans différents pays, et l'auteur analyse leur évolution et les réalisations en Grande Bretagne, aux Etats-Unis, aux Pays-Bas, en Suisse, en France, etc. Il signale les succès rencontrés et les difficultés qui ont dû être surmontées. Il passe en revue l'évolution et les formes légales très variées dans le cadre desquelles les Investment-Trusts ont été créés, et enfin il étudie un certain nombre de problèmes pratiques qui intéressent soit la gestion de ces fonds, soit l'épargnant.

Dans un dernier chapitre enfin, l'auteur décrit le rôle économique et social actuel des organismes de placement collectif, ainsi que l'évolution et les développements possibles de ce rôle. En effet, les efforts qui sont faits pour développer ces organismes se justifient non seulement par le service de simplification et de rationalisation qu'ils offrent à l'épargnant, mais aussi par le rendement qu'ils lui assurent et par la protection qu'ils donnent au capital investi. Plus encore, on pense qu'ils peuvent servir de base aux progrès futurs et à la démocratisation du „capitalisme", au meilleur sens du mot, en mettant la propriété mobilière à la portée de l'épargne la plus modeste, en appliquant la formule bien connue: „il n'est pas plus dangereux de se ruiner en achetant des titres que de s'empoisonner chez le pharmacien".

Dans la remarquable préface qu'il a accordée à cet ouvrage, Monsieur Max-Léo Gérard, ancien Ministre des Finances de Belgique écrit:

„Je souhaiterais particulièrement que cet ouvrage retienne l'atten-
„tion de ceux qu'on appelle, par un de ces néologismes un peu lourds
„mais qui définissent assez clairement une fonction les „investis-
„seurs institutionnels".

„Il s'agit ici à la fois des grandes Compagnies d'Assurances privées et de la Caisse Générale d'Epagne et de Retraite.

„Les premières ont déjà mis en portefeuille des actions de sociétés
„financières et industrielles. Ces participations, s'ajoutant à la déten-

„tion traditionnelle de Fonds d'Etat et d'obligations de sociétés ont „apporté à l'ensemble de ces placements un certain élément de sou- „plesse que les valeurs à intérêt fixe ne leur assuraient plus.

„On peut penser que des titres représentatifs d'Investment Trusts, „soit de caractère général, soit d'un type spécialisé comportant „éventuellement certaines valeurs étrangères, trouveraient leur „chemin vers les coffres-forts de ces Companies".

„Une conception analogue pourrait sans doute intéresser le Caisse „d'Epargne elle-même et pour les mêmes motifs de prévoyance à „longue échéance...

„M. Larcier aura rendu un véritable service à tous ceux que ces „problèmes préoccupent, en leur mettant en mains un guide excel- „lent pour l'étude de modalités de réalisation en Belgique des pro- „cédés financiers qui contribuent largement à l'essort et à stabili- „sation des progès économiques de grandes nations concurrentes".

M. FRANK

FONDS DE REGULARISATION DES BUDGETS ET FONDS D'EGALISATION DES CHANGES

PAR MAURICE MASOIN
Université de Louvain

L'on a déjà démontré à suffisance le rôle qu'un Fonds de Régularisation des Budgets pouvait jouer dans le cadre d'une politique conjoncturelle des finances publiques. Formé des excédents laissés par exécution des budgets — budgets des dépenses courantes ou budgets d'investissement — pendant les périodes de haute conjoncture, voire même de dotations spéciales des budgets, le Fonds de Régularisation des Budgets ménage à l'Etat ou aux pouvoirs publics en général des réserves de trésorerie qui viennent à point pour combler les déficits budgétaires que les périodes de basse conjoncture ne manquent pas de susciter. Le Fonds de Régularisation des Budgets joue également, par les vertus même de son mécanisme, un rôle stabilisateur de l'évolution économique, puisqu'il soustrait à l'économie une fraction de son revenu, et par conséquent de ses facultés de dépenses au moment où celles-ci tendent à être excessives et menacent de dégénérer en inflation, pour les lui restituer au moment où la dépression tend à déterminer une déflation. La gestion des finances publiques corrobore ainsi l'action tour à tour antiinflationniste et antidéflationniste de la politique économique générale. Ces points sont dorénavant acquis à la théorie des finances publiques — sinon à leur pratique — et il n'y faut plus revenir.

Ce qui, par contre, est beaucoup moins clair est l'action que la conjoncture exerce sur la balance des paiements et, inversément, que le comportement de la balance des paiments a sur la conjoncture, et comment la gestion d'un Fonds de Régularisation des Budgets greffée sur celle d'un Fonds d'Egalisation des Changes peut concourir tout à la fois à régulariser l'évolution conjoncturelle de l'économie nationale et à stabiliser le balance de paiements dans le temps.

Ce sera l'objet de cet article d'examiner ce point.

A vrai dire les réactions de la balance des paiments aux variations cycliques sont différentes selon les caractéristiques des économies. A ne considérer ici pour le moment que les balances de transactions courantes, ces réactions dépendent essentiellement du volume des exportations et des importations de biens et de services d'une part, et des prix auxquels ces opérations sont nouées, c'est à dire des termes d'échange, d'autre part. Mais comme le volume de ces exportations et celui de ces importations tendent à évoluer parallèlement, l'on peut résumer toutes choses en admettant que les termes d'échange sont en cette matière l'élément décisif.

Or, ce fait aussi est bien connu: les prix sont d'autant plus instables qu'ils se rapprochent des matières premières et d'autant moins qu'ils s'en éloignent. Les prix des produits finis sont plus ridiges que ceux des produits mi-finis et ceux-ci plus stables que ceux des produits bruts. Quant aux biens d'investissement, leurs prix sont fonction de ceux des biens qu'ils concourent à produire (et du taux de l'intérêt auquel ils sont capitalisés), c'est à dire qu'ils varient à la mesure des matières premières, des produits mi-finis ou des produits finis respectivement, dont ils sont l'instrument de production; leurs variations sont donc en général plus amples que celles des biens de consommation qui sont, quant à eux, par définition, finis.

Ce n'est pas ici le lieu de rechercher l'explication de ce phénomène. Qu'il suffise de l'énoncer et d'en tirer la conséquence, car ces prémisses suggèrent — ce qui est largement confirmé par les faits — que la balance des paiements des pays industrialisés — qui sont généralement importateurs de matières premières et exportateurs de produits ouvrés — bénéficie de termes d'échange plus favorables dans la dépression que dans l'essor, tandis que, inversément, la balance des paiements des pays dits insuffisamment développés souffre de la situation exactement inverse.

Termes d'échange de

	Indice Moody	Quelques groupes de pays industrialisés			Quelques groupes de pays insuffisamment développés		
	1948—1949 = 100	Etats-Unis	Pays de l'Europe Occidentale Continentaux	Grande-Bretagne	Zone sterling en dehors de Grande-Bretagne	Amérique latine (zone dollar)	Amérique latine Pérou
1948	108,6	110	102	104	89	74	—
1949	91,4	108	106	107	87	77	108
1950	110	94	100	96	108	106	101
1951	126,1	87	98	85	111	107	122
1952	113,7	91	100	92	87	99	98
1953	107,2	95	101	101	—	100	101

L'on voit bien que les termes d'échange des deux groupes de pays industrialisés d'une part et producteurs de matières premières d'autre part évoluent en sens inverse. Il en est généralement de même de l'évolution de leur balance des paiements respective.

Un phénomène répond d'ailleurs à l'autre, car, après tout, les soldes des balances des paiements de l'ensemble des pays du monde

se compensent exactement, si bien que le surplus des unes est fait du déficit des autres et que le déficit des unes a une contrepartie dans le surplus des autres. C'est là une vérité élémentaire, pourtant bien méconnue en ce moment où les pays du monde entier essayent, contre bonne et mauvaise fortune, de présenter tous ensemble un surplus de leur balance des paiements,...

Assurément, il est difficile d'isoler des statistiques économiques le phénomène que l'on entend ici observer. Trop de facteurs agissent sur la formation de la balance des paiments pour qu'il soit possible de distinguer l'influence de la conjoncture de toutes celles qui interviennent. C'est particulièrement vrai de la balance des pays les plus industriels, notamment européens, qui ont été et sont encore influencés par des facteurs très complexes et particulièrement par les conséquences résiduelles de la guerre. Mais le phénomène peut s'observer à un état beaucoup plus pur dans les pays insuffisamment développés, dont les exportations sont essentiellement axées sur les matières premières tandis que les importations sont principalement représentées par des produits ouvrés. Les variations conjoncturelles des prix n'y sont guère troublées que par l'influence du développement économique sur la balance des paiements.

Ces commentaires étant faits et les réserves voulues étant exprimées, voici, en regard de l'indice Moody des matières premières, l'évolution des avoirs d'or et de devises de certains groupes de pays industrialisés d'une part et producteurs de matières premières d'autre part.

Avoirs en or et en devises étrangères (en millions de dollars)

	Indice Moody	Groupes de pays industrialisés		Groupes de pays producteurs de matières premières		
	1948—1949 = 100	Grande-Bretagne	Europe Occidentale Continentale	Zone sterling, sauf Grande-Bretagne	Amérique latine	Autres
1948	108,6	2.009	5.360	6.985	2.935	3.225
1949	91,4	1.752	5.890	4.675	2.760	2.625
1950	110	3.668	6.420	5.355	3.245	3.115
1951	126,1	2.374	7.140	5.055	3.070	3.660
1952	113,7	1.958	8.335	4.450	3.115	3.350
1953	107,2	2.546	9.950	4.860	3.510	3.060

Bien que, ainsi qu'on l'a souligné, les avoirs d'or et de devises — reflet de l'état de la balance des paiements — aient subi l'influence de facteurs très multiples, il est possible de distinguer à travers les statistiques qui viennent d'être produites l'incidence du phénomène que l'on entend mettre ici en évidence: les encaisses des pays producteurs de matières premières ont évolué parallèlement à l'indice Moody, décroissant avec lui en 1949 pour s'accroître considérablement en 1951 et se réduisant généralement dans la suite (sauf en Amérique Latine). Le cas de la Grande-Bretagne est un exemple typique de l'évolution généralement inverse d'un pays industrialisé.

Il s'agit maintenant d'apprécier l'influence que la situation qui vient d'être décrite exerce sur la conjoncture propre des économies nationales. Car la balance des paiements n'est pas seulement la conséquence de la conjoncture économique; elle peut également en être une cause déterminante. Elle introduit, en effet, dans l'économie nationale des tendances inflationnistes lorsqu'elle laisse un solde positif, et des tendances déflationnistes lorsqu'elle présente un solde négatif.

Le surplus laissé par une balance des paiements favorable se répand normalement dans le revenu national, y activant le volume des dépenses, au moment où la masse de biens disponibles pour l'échange est précisément réduite par ces mêmes excédents de la balance des paiements. L'on pourrait ainsi prétendre qu'un surplus de la balance des paiements est doublement inflationniste, parce qu'il accroit le revenu dépensable tout en diminuant la masse de biens sur laquelle ce revenu peut se porter.

Inversément, le déficit de la balance des paiements fait un prélèvement sur le revenu national, qui réduit le volume des dépenses, au moment où l'offre de biens augmente par le fait même du déficit de la balance des paiements. Il est aussi doublement déflationniste.

Mais Ricardo et avant lui Adam Smith avaient déjà mis en évidence que ces réactions corrigeaient spontanément le déséquilibre, par excès ou par défaut, que pouvait présenter la balance des paiements. L'inflation tend à faire disparaitre ce surplus de la balance des paiements, tandis que la déflation élimine son déficit. Ainsi la balance des paiements évolue autour de son point d'équilibre comme un pendule dont chaque oscillation suscite l'oscillation en sens inverse.

L'on sait donc bien que le surplus ou le déficit de la balance des paiements est essentiellement précaire et que chacun d'eux tôt ou tard appelle son contraire. Et l'on peut dès lors en tenir compte dans la politique monétaire et économique générale.

Ces vérités élémentaires ne sont mentionnées ici que pour servir de base aux observations qui vont suivre.

Tous ceux qui se sont attachés à l'étude théorique ou pratique du Fonds de Régularisation des Budgets ont eu à se poser la question: Quelle affectation doit être donnée aux réserves formées par ce Fonds au cours de la période de haute conjoncture?

Ils se sont mis généralement d'accord sur ces deux principes:

— Ces réserves ne doivent pas être reversées à la circulation sous peine de perdre une de leurs vertus essentielles: celle de faire un prélèvement antiinflationniste sur le revenu national.

— Elles doivent donc être stérilisées soit sous la forme d'un dépôt de la Trésorerie auprès de l'Institut d'émission, soit directement en or ou en devises étrangères. Notons immédiatement que, sauf l'aspect formel, ces deux dernières propositions aboutissent au même résultat. A supposer, en effet, que les dites réserves soient versées à l'Institut d'Emission, celui-ci n'aura pas le choix de leur placement: s'il est entendu qu'elles ne doivent ni directement ni indirectement être restituées à la circulation, leur placement en crédits privés ou publics intérieurs est interdit, et il ne subsiste que la seule possibilité d'un placement en or ou en devises. Soit dit entre parenthèses, il se peut cependant que le recours à l'intermédiaire de l'Institut d'Emission soit préférable à un achat direct d'or et de devises par la Trésorerie, d'abord parce que c'est le rôle de l'Institut d'Emission de centraliser les disponibilités monétaires extérieures de l'économie. ensuite parce que, les engagements de l'Etat se comptant en monnaie locale, le Trésor n'a pas à prendre une position spéculative en devises étrangères.

Quoiqu'il en soit de cette nuance, il serait donc acquis que dans le chef de la Banque Centrale ou dans celui de l'Etat, l'affectation la meilleure du Fonds serait des avoirs en or ou en devises sur l'étranger.

Mais c'est ici qu'intervient l'observation qui a été faite plus haut: il se fait que, normalement, les pays industrialisés ont une balance des paiments déficitaire à ce même moment de haute conjoncture où ils seraient susceptibles de former une réserve budgétaire. Où donc puiseraient-ils le moyen d'acquérir de leurs propres ressources ces avoirs sur l'étranger, qui doivent constituer la contrepartie du Fonds de Régularisation des Budgets? On ne le voit pas. Sans doute le prélèvement déflationniste que l'Etat a fait sur le revenu national s'ajoutant à certaine déflation suscitée par le déficit de la balance des paiments courants prépare à longue échéance le redressement de la balance des paiements et offre la possibilité d'acquérir à la longue des moyens de paiements internationaux.

Mais il faut du temps et peut-être des années avant que ces ré-

actions produisent leurs effets; or la solution du problème doit être immédiate. Cette observation pourrait bien remettre en cause, sinon le principe de la constitution du Fonds de Régularisation des Budgets dans les pays industrialisés, tout au moins les principes de gestion qui étaient précédemment généralement admis. Et l'on se demande s'il ne faut pas accepter que, dans leur cas, les réserves du Fonds soient affectées à des placements intérieurs plutôt qu'à des placements extérieurs. Le résultat serait que l'Etat restituerait immédiatement à l'économie nationale les ressources qu'il en a prélevées; mais cette restitution présente-t-elle un inconvénient si, par ailleurs, cette économie est mise en état de déflation relative par le déficit de la balance des paiements?

La situation est toute différente dans les pays insuffisamment développés producteurs de matières premières, car il y a normalement coincidence dans leur chef entre l'apparition de surplus budgétaires et celle de surplus de la balance des paiements au stade de la prospérité, de même qu'entre le déficit budgétaire et le déficit de la balance des paiements au stade de la dépression. C'est à dire qu'il est à la fois possible et opportun pour eux de constituer un Fonds de Régularisation des Budgets dont l'action répondrait à celle de l'Institut d'Emission sur le marché des changes; peut-être même l'intervention de celui-ci pourrait-elle prendre la forme concrète d'un Fonds d'Egalisation des changes constituant en haute conjoncture des réserves de changes au moyen des ressources du Fonds de Régularisation des Budgets, en vue de les céder en basse conjoncture pour reconstituer la trésorerie du Fonds de Régularisation des Budgets.

Cette action, conduite sur les deux plans de l'économie intérieure et de l'économie extérieure, constituerait sans nul doute un facteur essentiel de stabilisation de la conjoncture des pays insuffisamment développés.

En somme, le problème se présente à eux dans ces termes: ou bien accepter toutes les conséquences de l'instabilité des matières premières qui forment le principal de leur production et de leur exportation; mais c'est imposer à leur monnaie et à leur économie toutes les épreuves de l'inflation alternant avec la déflation. Il n'est pas certain que ni leur monnaie ni leur économie résisterait à ces chocs successifs. Au surplus ces économies ne sont-elles pas perdantes à chaque coup? Se laissant entrainer dans l'inflation au sommet de leur prospérité, elles perdent le bénéfice de la balance des paiements favorable qui avait fait leur fortune, et lorsque la conjoncture tourne à leur détriment, elles se trouvent dépourvues des réserves de devises nécessaires à la couverture du déficit. Ou bien, admettant l'instabilité de leur conjoncture comme un fait qui

échappe à leur influence, ces pays peuvent adopter telle politique qui mette autant que possible leur monnaie et leur économie à l'abri des répercussions de cette inconstance. Ce ne peut être sur le plan extérieur qu'en constituant, à la faveur de la balance des paiements positive dont ils jouissent dans les années fastes, des réserves de change pour couvrir le déficit des périodes néfastes, et sur le plan intérieur qu'en formant, à charge des revenus excédentaires créés par l'inflation, des réserves budgétaires qui combleront le déficit de trésorerie des années de déflation. L'on est convaincu que bien des situations catastrophiques, auxquelles les pays insuffisamment développés sont périodiquement exposés, pourraient être évitées par ces simples dispositions.

Nous connaissons particulièrement un pays où ces dispositions ont été appliquées et où elles ont produit les effets que l'on pouvait en attendre. Il s'agit du Congo Belge.

Déjà en 1931, un Fonds de Crise avait été constitué pour répondre aux difficultés de la dépression mondiale; il s'agissait alors purement et simplement d'autoriser le financement du déficit du budget des dépenses courantes par l'emprunt. Le problème était mal posé et la solution mauvaise. Aussi l'expérience avorta.

La question fut reprise après la seconde guerre mondiale et fut conduite jusqu'aux nouveaux statuts qui furent donnés au Fonds spécial d'Egalisation des Budgets en 1950.

L'exposé des motifs introductif de la loi précisait: „La constitution d'une réserve budgétaire importante rendra les budgets ordinaires successifs du Congo Belges moins sensibles aux variations de la conjoncture. D'autre part, l'obligation, pendant les bonnes années, de prévoir annuellement une allocation de sécurité pour l'approvisionnement du Fonds, constituera un frein à l'augmentation des dépenses".

Effectivement le Fonds est alimenté:

— par des allocations couvertes par les recettes ordinaires, fixées chaque année en période favorable, par le loi du budget ordinaire du Congo Belge,

— éventuellement, par le produit de recettes exceptionnelles ou spéciales déterminé, dans chaque cas, par la loi du budget,

— par les excédents de recettes que font apparaitre annuellement les lois de règlement définitif des budgets ordinaires du Congo Belge à partir de l'exercice 1939.

Les prélèvements sur le Fonds ne peuvent être opérés qu'en vertu d'une loi et uniquement pour couvrir le déficit des budgets ordinaires du Congo Belge en cas de dépression économique.

Le Fonds de Régularisation des Budgets fut alimenté comme

suit, jusqu'à s'élever à 12.363 millions de francs à 'n 1953, ainsi constitués (en millions de francs):

Dotations allouées par les lois budgétaires .	5.409
Bonis des exercices 1939 à 1946	2.088
Bonis des exercices 1947 à 1952	4.866
	12.363

Les réserves ainsi constituées représentaient une année et demie de dépenses publiques.

Parallèlement à cette évolution, la balance des paiements du Congo Belge et du Ruanda-Urundi présenta depuis 1948 la physionomie suivante:

Balance des paiements du Congo Belge et du Ruanda-Urundi

(en millions de francs congolais)

	Transactions courantes	Mouvements de capitaux à long terme	Erreurs et omissions	Solde Global
1948	+ 2.165	+ 108	—	+ 2.273
1949	+ 6	— 391	—	— 375
1950	+ 3.087	+ **2.935**	— 158	+ 5.864
1951	+ 1.361	+ **767**	+ 1.594	+ 3.722
1952	— 1.801	+ **3.224**	+ 508	+ 1.931
1953	— 1.668	+ **2.727**	— 232	+ 827

C'est à dire qu'au cours de ces six dernières années, la balance globale des paiements présenta des surplus qui se totalisèrent par 14.242 millions de francs.

Indépendamment des avoirs en devises détenus par les banques privées et par la Trésorerie, les réserves de change de l'Institut d'Emission évoluèrent d'ailleurs comme suit:

Réserves d'or et de devises de l'Institut d'Emission au Congo Belge

(en millions de francs congolais)

fin	Or	devises [1])	totaux
1947	746	1.822	2.568
1948	865	1.551	2.416
1949	1.115	1.123	2.238
1950	1.171	2.163	3.334
1951	1.634	1.995	3.629
1952	3.264	4.166	7.430
1953	4.297	5.781	10.078

[1]) à l'exclusion des francs belges.

Il y a plus que des coincidences entre ces divers ordres de phénomènes: surplus de la balance des paiements et accroissement des encaisses de l'Institut d'Emission d'une part et constitution de réserves budgétaires d'autre part. L'ordre d'importance des chiffres suffirait d'ailleurs à le suggérer. Il y a, au contraire, entre ces faits une relation de cause à effet et la marque d'une politique systématique. En effet, la Trésorerie Congolaise affecta la plus grande partie du Fonds d'Egalisation des Budgets soit à l'acquisition de devises étrangères (qu'elle céda ultérieurement à la Banque Centrale), soit à la constitution d'un dépôt en compte courant auprès de l'Institut d'Emission, en contrepartie duquel celui-ci acquit les avoirs en or et en devises laissés par les surplus de la balance de paiements.

Malgré la haute conjoncture de prix et d'activité dont il bénéficia, le Congo Belge conserva une position monétaire et économique parfaitement saine, exempte d'inflation, la forte position de sa balance des paiement en étant le meilleur indice. Il doit certainement une bonne part de cette position favorable à l'existence du Fonds de Régularisation des Budgets. C'est bien simple: à défaut de celui-ci, le revenu monétaire à la disposition de l'économie privée eut été augmenté de toutes les réserves formées par le Fonds, le volume des dépenses privées en eut été accru d'autant et une partie de ces dépenses eut pris la forme d'importations qui eussement pesé sur la balance des paiements.

L'exemple du Congo Belge illustre ainsi très bien la démonstration que l'on a voulu faire ici.

Cet exposé serait incomplet s'il n'abordait pas le rôle que les mouvements de capitaux jouent ou plutôt devraient jouer en cet équilibre conjoncturel de la balance des paiements.

Car si l'on admet que la fonction des capitaux étrangers est entre autres et essentiellement de couvrir le déficit de la balance des paiements courants, il en résulte plusieurs conclusions pour la politique financière conjoncturelle, notamment des pays insuffisamment développés.

Pendant plusieurs années après la seconde guerre mondiale, cette fonction des emprunts étrangers fut interprètée de façon restrictive par les organismes de financement international, en ce sens que seul était visé par là le déficit provenant directement des importations des biens d'investissement en rapport avec le développement économique. Mais l'on reconnut bientôt que les investissements intérieurs assumés par les pays en voie de développement économique étaient eux-mêmes générateurs de revenus additionnels qui, s'ils ne trouvaient pas une contrepartie immédiate dans une offre correspondante de biens de consommation d'origine intérieure, pouvaient

y répandre l'inflation et suscitaient en tout cas une augmentation des importations de biens de consommation. C'est donc également le rôle des capitaux étrangers de couvrir le déficit de la balance des paiements qui peut résulter de ces importations de biens de consommation en rapport avec le développement interne du revenu national.

Mais si ces principes sont vrais — et ils sont actuellement largement admis —, ils signifient que le financement étranger doit être réservé aux moments où la balance des paiements courants est effectivement déficitaire. Intervenant dans ces circonstances il atténue la déflation dont souffrent les pays déficitaires. Intervenant en autre temps, il provoquerait peut-être et aggraverait certainement l'inflation que le surplus de la balance des paiements courants tend à répandre spontanément dans l'économie.

Ces propos intéressent les pays industrialisés, mais ils visent particulièrement la situation des pays insuffisamment développés. Le cas est fréquent, en effet, où, sous le couvert du développement économique, ceux-ci adoptent vis à vis du financement international une attitude systématiquement demanderesse, sans considération de la position particulière de leur balance des paiements à chaque stade de la conjoncture. Ils risquent d'aggraver ainsi l'instabilité de leur économie, sous prétexte de l'atténuer.

L'on a ainsi l'esquisse d'une politique conjoncturelle du financement du développement économique où le financement par des ressources extérieures serait réservé aux moments où la balance des paiements est déficitaire, c'est à dire, en ce qui concerne les pays insuffisamment développés, en temps de dépression économique (C'est aussi le moment où les pays industrialisés disposent normalement d'une balance des paiements créditrice, qui leur permet de prêter cette aide aux pays producteurs de matières premières), tandis que le soin du financement du développement économique incomberait en tout ou en principal lieu à l'épargne intérieure lorsque la balance des paiements serait créditrice.

Et si la politique d'emprunts ou bien le mouvement spontané des capitaux ne se prête pas à ces adaptations conjoncturelles, c'est encore la politique monétaire de l'Institut d'Emission greffée sur celle de la politique budgétaire de l'Etat qui peut ménager ces alternances par l'intermédiaire d'un Fonds d'Egalisation des changes d'une part et d'un Fonds de Régularisation des Budgets d'autre part. Car l'on peut fort bien imaginer que ces capitaux que le pays reçoit à contretemps lorsque sa balance des paiements est, dès l'abord, positive, soient conservés disponibles en devises étrangères par l'Institut d'Emission, sauf à celui-ci à en créditer dans ses comptes le Fonds de Régularisation des Budgets en monnaie locale;

s'ils sont ainsi réservés à des périodes moins favorables, l'Institut d'Emission y trouve des avoirs en devises, le Trésor des réserves en monnaie locale et l'économie entière une plus grande stabilité.

Nous n'entendons certainement pas proposer le Congo Belge pour modèle. Mais il constitue sans aucun doute un exemple intéressant de pareille politique. Celle-ci fut-elle consciente ou inconsciente? Le fait est qu'au cours des dernières années de développement intense que connut le Congo Belge et qui furent marquées par des investissements considérables, les apports de capitaux extérieurs restèrent en 1950 et 1951 inférieurs au boni de la balance des paiements, lorsque celle-ci présenta des surplus importants (ce qui démontre bien que l'épargne intérieure suffit non seulement à financer les investissements intérieurs du Congo, mais dans une certaine mesure à former un investissement extérieur), tandis qu'en 1952 et en 1953, lorsque la position de la balance des transaction courantes se dégrada quelque peu, les capitaux étrangers vinrent à point pour combler ses insuffisances, et l'économie congolaise put reprendre sur ses réserves extérieures précédemment constituées de quoi parfaire ses besoins d'investissements. L'épargne intérieure et l'épargne extérieure se sont ainsi relayées au cours du cycle économique pour financer le développement économique fondamental du Congo Belge.

Les chiffres sont ceux-ci:

Investissement intérieur et investissement extérieur du Congo Belge

(en millions de francs congolais)

	Investissement brut intérieur	Investissement brut extérieur	Investissement brut global
1950	7.714	+ 3.050	10.764
1951	13.300	+ 2.370	15.670
1952	16.670	— 1.470	15.200

La politique monétaire, financière et économique de chaque pays constitue un tout qui doit être homogène et qui doit s'insérer dans l'évolution générale de l'économie mondiale. C'est sur un des aspects de cette intégration que l'on a voulu attirer l'attention dans cet article: sur la nécessité et la possibilité de coordonner la gestion des finances publiques intérieures avec celle de la balance des paiements pour parvenir à une meilleure stabilité de l'économie, compatible avec son progrès.

Le Fonds de Régularisation des Budgets et le Fonds d'Egalisation des Changes constituaient à cet égard un excellent domaine d'exploration pour la théorie. L'on voudrait qu'ils devinssent aussi

un champ d'application d'une politique économique et financière conjoncturelle, particulièrement dans les pays producteurs de matières premières qui, de par leur structure, souffrent le plus gravement de l'instabilité du cycle économique.

BUDGET EQUALIZATION FUND AND EXCHANGE EQUALIZATION FUND

BY PROFESSOR MAURICE MASOIN

The author takes for granted the advantages of a cyclical policy in public finance, involving the alternation of budgetary surpluses and deficits.

On the other hand, he finds that — at least in underdeveloped countries, which, in general, are producers of raw materials — to these alternations of budgetary results correspond equivalent alternations of the position of the balance of current payments: a surplus during the boom, a deficit during the slump. These alternations impart to the economies of the countries concerned an undue instability: inflation during the boom, deflation during the crisis.

It would therefore be highly advantageous for those countries to come to a constant relationship between the budgetary policy and the balance of payments policy, using the surpluses, if any, remaining on the budgets in boom periods, for the purchase of foreign exchange, which will form the balance in hand on their balance of payments, all this to create reserves of funds and of foreign exchange for periods of depression.

The example of the Belgian Congo, where it has been possible to adopt such a policy thanks to the existence of a Budget Equalization Fund, is dealt with in detail.

This policy, which relates to Government revenue budgeting and to the balance of current payments, might be combined with a similar policy as regards capital budgets and the balance of capital payments. In fact, public works might be financed with internal savings during the boom, foreign loans being reserved for depressions, in which the balance of payments usually shows a deficit. The precedent of the Belgian Congo is again referred to.

The author is convinced that in the long run the application of these two systems will lead to a better internal and external equilibrium in underdeveloped countries.

MONETARY-FISCAL POLICY AND ECONOMIC DEVELOPMENT IN HAITI

BY O. ERNEST MOORE
United Nations Financial Expert
with the Haitian Government

The Republic of Haiti, which is about two-thirds the size of the Netherlands, occupies the mountainous western third of the island of Hispaniola or Santo Domingo, which lies to the east of Cuba. Colonial Haiti's population of black slaves and mulattoes threw off the French yoke in 1804 after a long struggle which left the country in ruins. The country is still almost exclusively agricultural, exporting mainly coffee, sugar, and sisal. With a 1950 census count of over 3.100.000, the population density is the highest of any self-governing area in Latin America, except Puerto Rico. For serveral years, intensive efforts have been made to raise output, encourage a modicum of industrialization, and stimulate tourism. These efforts are beginning to bear fruit.

Monetary and Debt History, 1910-1919 [1])

At the time of its political liberation, Haiti began the issuance of coins and notes denominated in gourdes. The word "gourde" had already come into use as a short name for the *piastre-gourde* or *peso-gordo, one* of several foreign coins circulating in colonial Haiti. The *peso-gordo,* minted in Spain, had a higher silver content and a higher value than the pesos minted in the Spanish colonies, which also circulated in Haiti. It was not until 1919, however, that the issuance of gourde notes in Haiti became the exclusive prerogative of a State Bank. This State Bank, the Banque Nationale de la République d'Haiti, was 100 % foreign-owned. It had been granted a concession in 1910 to operate as a commercial bank, as a bank of issue, and as the fiscal agent of the State. The National Bank of the Republic of Haiti was owned by an international banking consortium headed by the Banque de l'Union Parisienne and including the Berliner Handelsgesellschaft, the American investment banking firms of Ladenburg Thalmann & Co. and Hallgarten

1) The account here given of monetary and debt developments in Haiti during the decade preceding the American occupation is based in large part on an unpublished study which was kindly made available by Dr Joseph Chatelain, Chief of the Research Division of the National Bank of the Republic of Haiti.

& Co.,and the National City Bank of New York. It had been preceded by a French-owned institution of the same general nature, the Banque Nationale d'Haiti, whose 30 years of operation (1880-1910) had been marked by a series of scandals.

The BNRH (as the National Bank is commonly called in Haiti) was created under a 1910 contract between the Haitian Government and the Banque de l'Union Parisienne. A concurrent contract between the same parties provided for the flotation abroad of a 50 % 50-year loan of 67 million francs, of which 10 million francs was to be used for a monetary reform and the rest for redemption of the internal debt and for current Treasury needs. The authorized capital of the BNRH was 20 million francs, of which one-fourth was initially paid-up. The Bank undertook to make "statutory advances" to the State up to 3.000.000 francs.

The currency, which had once been on a par with the U.S. dollar, had depreciated severely, as a result of political uncertainties and fiscal mismanagement. In 1909 the average quotation of the gourde in the foreign exchange market of Haiti was 5.63 to the dollar. The monetary reform plan called for exchanging the outstanding currency for gold coins and dollar notes at a ratio of 5 gourdes to the dollar. However, before the plan could be put into effect a vigorous recovery of the gourde exchange rate took place (to 3.40-3.50 goudes to the dollar in the summer of 1912), and the idea of a complete redemption of the currency at a 5-to-1 ratio was abandoned in favor of a program of partial redemption (the Lespinasse plan) over a 3-year period at a rate of 3½ gourdes to the dollar.

The BNRH, however, was opposed to the new reform program. The Bank had just had submitted to it by the French economist Edmond Théry a monetary reform plan under which the Bank would have given its own notes, at a 5-to-1 ratio, in exchange for the Government's outstanding currency, and would have used as cover for its notes the 10 million francs of the Government's monetary reform fund. Seeking the adoption of the Théry plan, the Bank notified the the Government that in its opinion the Lespinasse reform program violated the 1910 contracts and that it would not release the monetary reform fund (of which as fiscal agent it had physical possession) unless and until the Government complied with the original monetary reform provision calling for the complete elimination of Government paper currency. Rejecting this thesis, the Government proceeded to issue a domestic dollar loan with the proceeds of which it could initiate the Lespinasse program. The loan was oversubscribed, but in May 1913, before the money could be put to use, the President of Haiti (Tancrèdre Auguste) died. His suc-

cessor (Michel Oreste) had as a senator opposed the Lespinass plan, and he now refused to execute it.

In August 1913 a new monetary reform plan — the Bonam law — was voted. This plan provided for the conversion into gol and silver coins of all Government-issued currency exept a part o the nickel coinage. The gourde was defined as a unit of 0.418 gra of gold 900 fine, thus giving it a legal parity of 4 to the dolla Silver coins were to be minted at once, but the time of issuance o gold coins was left for later decision. In addition to the 10 millio franc monetary reform fund, certain tax receipts and the proceed of a small Government bond issue were to be used for the financin of the plan.

Whatever may have been the technical merits of the Bonam plan, its actual execution, beginning on January 1, 1914, took plac in an atmosphere of public misunderstanding and distrust and o rising prices, and these circumstances may have played a role i the fall from power of Michel Oreste on January 27, 1914. Th silver coinage provisions of the Bonamy plan were at once sus pended, but about one-fourth of the monetary reform fund wa used for the retirement of Government notes before the plan as whole was discarded. In the meantime a violent disagreement ha arisen between the Government and the Bank concerning th latter's handling of the customs revenues and its unauthorized ship ment to New York of part of the monetary reform fund. Th Government's ensuing financial difficulties, combined with in creasing political chaos and frequent insurrections, made the pur suance of sane monetary policies impossible. On July 28, 191 after the mob killing of President Guillaume Sam, American marine landed at Port-au-Prince and began a 19-year occupation of Hait

Two months later the administration of President Dartiguenav set up with the occupant's blessing, signed with the United State Government a Convention under which the President of Haiti wa to appoint, upon nomination by the President of the United State a Receiver General for the collection of all customs duties and Financial Adviser charged with "setting up an adequate syste of public accounting, helping to increase revenues and to adju them to expenditures, inquiring into the validity of the Repblic debts, advising the two governments with respect to any futu indebtedness, recommending improved methods of collecting an disbursing revenues, and making such other recommendations t the Secretary of State for Finance as may be judged necessary f the well-being and prosperity of Haiti." From the revenues co lected by the Receiver General, 5 % was to be deducted as a fir charge to cover the salaries and office expenses of the two America

officials. As a second charge, interest and amortization of the public debt was provided for. The balance of the customs revenues, after paying the costs of the national gendarmerie set up under American officers, was to be available for the Government's current expenditures. The Convention further provided: (1) that the Republic would not incur new indebtedness without prior approval by the President of the United States, unless revenues were sufficient to cover, in addition to current expenses, interest and complete amortization; (2) that it would not alter customs duties in such a way as to reduce the total yield; and (3) that it would cooperate with the Financial Adviser in the improvement of tax collection and disbursement methods and in creating any necessary new sources of revenue.

As a consequence of the American occupation, a shift in the ownership and control of the BNRH took place. In 1916, the National City Bank of New York increased its participation to 25 % by taking over the shares of the other American participants and of the German members of the consortium. In April 1920, it became the sole owner by acquiring the shares previously held by the Banque de l'Union Parisienne.

On July 10, 1916 the Haitian Government and the BNRH signed in Washington an agreement settling their pre-occupation dispute. The Bank was made the depository of revenues collected by the Receiver General, the portion of the monetary reform fund which had been shipped to New York was returned to Port-au-Prince, and the unused balance of the fund was made freely available for use by the Government in carrying out a monetary reform.

The Period of Economic Stability, 1919-50

Three years later (on April 12, 1919) the Government and the Bank signed a Convention laying down the details of the reform. A Currency Retirement Fund of $ 1.735.644,89 was set up, consisting of the balance of the monetary reform fund and $ 139.539,61 of other available exchange holdings. Holders of the Government-issued gourde notes, amounting to G. 8.877.972, were to receive in exchange, at their option, dollar notes at a ratio of 1 dollar to 5 gourdes, or new Bank-issued gourde notes on a 1-to-1 basis. On the back of each new gourde note was the Bank's printed promise to exchange it on demand for dollar currency, at a 5-to-1 ratio. The Bank was obligated to keep a cash reserve of least 33-1/3 % in dollar notes and dollar sight deposits against its own note liabilities. To the extent that its note liabilities exceeded the cash reserve, they had to be fully backed by short-term commercial paper

carrying (if unsecured) two good signatures. The notes of the Bank were given a specific priority over depositors' claims in the event of liquidation. While a general ceiling of three times the Bank's paid-in capital (then standing at $ 2.000.000) was placed over its note-issue, the framers of the Convention were evidently concerned about the adequacy of the new currency to meet the future needs of business, as they provided that additional currency could be issued on security satisfactory to the Government, in the event that the Bank's capital was not raised in line with currency needs.

The Convention of April 12, 1919 was sanctioned by a law of May 2, 1919 which stipulated that "Until such time as the country's economic situation permits it to envisage and adopt the measures relative to the establishment of a national gold currency,the Bank's notes shall be accepted in transactions at the rate of 5 gourdes for one dollar and vice versa." A communique issued by the Finance Ministry on November 25, 1919 made it clear that this was intended to make the dollar, as well as the gourde, acceptable as legal tender at the 5-to-1 ratio and that anyone engaging in transactons at a different ratio would be subject to sanctions under the Penal Code.

The year 1922 was marked by two financial events. First, the Government signed a contract with the National City Company of New York, approving the transfer to it, with minor changes, of the State Bank concession which had been granted in 1910 to the Banque de l'Union Parisienne. The National City Company agreed to operate the concession through a newly formed Haitian corporation having the same name — Banque Nationale de la République d'Haiti — as the French company which had implemented the concession of the Banque de l'Union Parisienne. The contract reserved the Government's right to issue a gold currency ("émettre de la monnaie d'or") and obligated the Government to make any future issues of subsidiary coinage through the BNRH, The "statutory advance" of the BNRH to the Government was fixed at $ 600.000. Secondly, in 1922 the Haitian Government consolidated all of its outstanding indebtedness by issuing in the American market a 30-year 6 % dollar loan, redeemable in 1937, in an amount of $ 23.7 million. The 1922 loan was made a first charge against all revenues of the Haitian Government, subject to a deduction of 5 % of customs collections for allocation, as already indicated, to the salaries and office expenses of the Receiver General and the Financial Adviser.

Under the conservative husbanding of the two Americans charged with the control of Haiti's finances, the monetary, budgetary and

debt positions of the country improved rapidly. For a number of years, the 1922 loan was amortized at a more rapid rate than was called for by the terms of the contract, with the result that almost a third of the government revenues were going into debt service. In 1937, however, a sharp decline in the world price of coffee so severely affected the Haitian economy and finances that an arrangement was entered into with the bondholders under which annual amortization was at first temporarily reduced to a token sum and then suspended. Interest payments however, were fully maintained, and in 1943-44 full amortization was resumed.

In 1934, when the American occupation ended, the assignments of the Receiver General and Financial Adviser were also terminated, but the two governments agreed on the appointment of an American Fiscal Representative to insure execution of the terms on which the 1922 loan had been issued. The Fiscal Representative was to be in active direction of the customs and was to supervise and control the internal revenue service (the *Administration Générale des Contributions,* which had been set up in 1924 under the management of the Receiver General). The restrictions on the Haitian Government's freedom to contract new indebtedness and modify its tax system were maintained. The Government was furthermore enjoined from liquidating certain investments without the assent of the Fiscal Representative.

The end of the American occupation was evidently considered an appropriate time to convert the BNRH into a Haitian institution. A Contract of Sale tranferring its ownership to the Haitian Government was signed in 1934, and the transfer was consummated in 1935. At the same time the Bank's paid-in capital was reduced by half to $ 1.000.000. The Bank's Board of Directors thereafter was to have six members appointed by the President of the Republic, one of whom was to be the Finance Minister; two each were to be chosen from lists submitted by the Foreign Bondholders Protective Council (New York) and by the Fiscal Agent of the Series A 1922 bonds, i.e., the National City Bank. In general, the terms and conditions laid down in the 1910 and 1922 concession were maintained without important alteration. The law sanctioning the Contract of Sale introduced a slight liberalization of the cover requirements by permitting the Bank to include up to $ 600.000 of the Government's dollar bonds in the two-thirds part of the cover not required to be backed by gold, dollar currency and sight dollar deposits. A few months later, the note issue ceiling, which had fallen to G. 15.000.000 as an automatic result of halving the Bank's capital, was raised to G. 20.000.000 by providing that the excess

amount of G. 5 million be secured by dollar bonds of the Government.

In 1941, under an agreement signed between the Haitian and American Governments, the office of Fiscal Representative was abolished and a Fiscal Department was created in the National Bank to carry on roughly the same duties. The Board was revamped so that half of the six voting members would be Americans and half Haitians; the Finance Minister was to be Honorary President casting no vote and one of the American members was made co-President as well as representative of the holders of Haiti's 1922 bonds. The Board was made responsible for preparing estimates and fixing limits for the Government's annual budgets, and for setting aside monthly from the Government revenues the amounts required for service of the 1922 loan.

By the end of the fiscal year 1946-47, only $ 6.9 million of the $ 23.7 million loan floated in 1922 was still outstanding, and only $ 3.8 million of other indebtedness existed, even after allowing for a hypothetical liability for half of the subsidiary coinage. Twelve years after the military liberation, the time had arrived for complete financial liberation. In 1947 the Government began issuing the so-called Internal Loan, a 5 % issue maturing in 1957 and redeemable in 1953. The total amount authorized for this dollar-denominated loan was $ 10 million, of which a little over $ 7 million was issued in 1947 and the remainder in subsequent years. Some $ 1.9 million of the new bonds were issued, at a slight discount, in exchange for bonds of the 1922 loan. The remainder were sold, at a price of 99, to the National Bank of the Republic, to various government trust funds, to the social insurance institute, and to private investors. Investors in the United States acquired $ 639.000 of the new bonds. Some $ 2.9 million of the cash proceeds of the 1947 loan were used to redeem the 1922 bonds which had not been surrendered in exchange for the new issue.

Service of the 1947 bonds is a first lien on the government's internal and customs revenues and payments of interest and amortization are made for the Government's account by the National Bank. One-twentieth of the total issue is amortized semi-annually, the bonds redeemed being drawn by lot. The law authorizing the 1947 issue provided that for the duration of the loan no change could be made in the organization and attributes of the Commercial and Fiscal Departments of the National Bank; however, the Government reserved the right to create such other departments in the Bank as might be necessary for the economic development of Haiti. The Board of Directors was reduced from six members to five, all appointed by the President of the Republic.

To facilitate the Bank's purchase of a part of the 1947 bonds, it was legally authorized to include in the note cover up to $ 1.240.000 of Government securities. Two years later the amount was raised to $ 2 million. At the same time, the note cover requirements were liberalized. A new overall ceiling of 60 million gourdes was placed on the note issue, which had to be covered at least 33-1/3 % by gold and dollars and for the rest by gold, dollars, and other eligible assets (short-term commercial paper or U.S. Treasury securities, or Haitian Government securites up to $ 2 million.

The Monetary-Fiscal System in 1950

Under the enlightened stewardship of President Paul E. Magloire, who assumed office late in 1950, Haiti has forged ahead into an entirely new phase of its history, where economic development without the sacrafice of economic stability has become the major goal. Under what conditions has this progress been achieved? Was the monetary and fiscal system adaptable to the new aims? Since 1919 that system had been directed exclusively at the preservation of a stable, sound money and steady, dependable repayment of the foreign debt — both of which aims had been achieved with outstanding success. But meanwhile Haiti's economic stagnation of the past century and a half had persisted. Indeed, there were signs that, instead of going forward economically, the country was slipping backward. Deforestation and land erosion were proceeding rapidly, production of coffee and various other crops was tapering off gradually, and the pressure of a dense population was mounting steadily. It was becoming obvious that, in the absence of economic development, economic stability could not be maintained indefinitely.

From the viewpoint of badly needed economic development, what were the defects of the monetary, banking, and fiscal systems?

Money and Banking in 1950

First of all, Haiti had no central bank. The National Bank was primarily a commercial bank, concerned most of all with the financing of foreign trade, but acting also as the Government's fiscal agent and, indeed, collecting the customs revenues and auditing the Government's receipts and expenditures. True, it had a monopoly of the gourde note issue, but gourde notes were only a part, possibly only half, of the total means of payment circulating in Haiti. Nobody knew what amount of dollar notes and coins was circulating. The Bank was legally responsible for the convertibility of its notes into dollars, but only upon presentation at its windows. It had no responsibility for the external value of the currency.

Anyone abroad holding Haition money — whether it be coins, notes or deposits — had no ready means of converting it into his own or another currency at its supposed par value of 5 to the dollar. Foreign banks were not tempted to bugy gourdes which the Haitian Government had not arranged to make freely convertible into gold or dollars. The National Bank had a strong gold and dollar reserve — for such a small country, one of the strongest in the world — but it was not available for defese of the currency abroad. Indeed, it was very largely frozen as a purely nominal backing for the gourde notes. Theoretically these had to be covered only one-third in gold and dollars and the other two-thirds could consist of short-term commercial paper (except for a small amount of Government securities). But short-term commercial paper was virtually non-existent in Haiti, so the gap in the note cover had to be filled with dollars. The result was that only a small part of the Bank's dollar holdings could be termed "free" dollars, utilizable for the financing of foreign trade and the defense of the currency internationally.

Another defect of the legai reserve requirements for the National Bank was that they related only to notes and not to other sight liabilities. Since the Bank's current account and deposit liabilities were subject to instantaneous conversion into note liabilities, there was always the possibility that, in a time of crisis, the note circulation would rise abruptly and require the allocation of a large amount of dollars as additional cover. If at such a moment the amount of free dollars available happened to be low, a dangerous situation could arise.

A third defect of the reserve requirements was their complete rigidity. A monetary reserve should be what its name implies — something which has been set aside in good times so that it will be available when needed to tide the country through an emergency or a temporary difficulty. If it cannot be touched when the emergency or difficulty arises, the whole purpose of its accumulation has been missed. In the modern world, few countries still require their central bank to keep a stock of gold and dollars at a rigid percentage of its sight (or note) liabilities. Most countries have found ways of introducing flexibility into their monetary reserve requirements; some have even abandoned the whole idea of a compulsory reserve.

The absence of flexibility in the monetary reserve requirements was the more serious because Haiti was not a member of the Bretton Woods institutions, although the purpose of those institutions was precisely to help economically weak countries like Haiti to combat the consequences of adverse trade and price develop-

ments and the financial strain caused by the process of economic development.

The National Bank was not a "lender of last resort". It had no authority to supervise the general policies, operations or interest rates of other banks (of which in 1950 there was only one). Despite its fiscal agency function, it had no mandate to serve as the Government's adviser on the latter's financial and fiscal problems and plans. It was essentially a commercial bank operating on the profit motive and competing for business with the other commercial bank, a branch of the Royal Bank of Canada.

Nor was the circulation of two legal tender currencies bound to each other by a rigid 5-to-1 ratio an unmixed blessing. In the first place, under this system the authorities could never know the total amount of money in circulation in Haiti, let alone regulate it.

In the second place, the physical circulation of dollars was an expensive luxury for a country as poor as Haiti. The dollars would obviously be more useful if held in the monetary reserve of the National Bank, where they could not only be the basis of a larger gourde note circulation, but at the same time strengthen Haiti's ability to borrow abroad for economic development and help fill occasional gaps in the balance of international payments. The situation was comparable to that which had existed in many countries under the gold coin standard and which had prompted the centralization of gold in the central banks. In Haiti, dollar notes were playing a role similar to that played by gold coins before the First World War in Europe and before 1933 in the United States. The main difference was that in Haiti dollars constituted a much larger percentage of the total circulation than gold coins had represented in other countries.

One further disadvantage of the Haitian monetary system as it existed in 1950 must be noted. Because the gourde was so rigidly tied to the dollar, Haiti had completely resigned its monetary sovereignty, not only in the way already mentioned (impossibility of a monetary policy) but also with respect to the external value of the currency. If the dollar depreciated or was devalued, the gourde was automatically and simultaneously cheapened, regardless of the wishes or preferences of the Haitian authorities. It can, of course, be argued that, whether or not legally tied to the dollar, the gourde would in any event follow whatever course the dollar might take, in view of the heavy economic and financial dependence on the United States. However, in times past Haiti's principal market was France. Haitian coffee did not go to the United States until the mid-thirties, when commercial relations were broken off by France because of a loan dispute. Two years ago a new com-

mercial treaty was signed with France and Haitian coffee is again beginning to find its way to that country. Already in 1952-53 [2]) the United States' share of Haiti's exports had fallen to 41 % (from 58 % in 1951-52), while France's share had risen to 12 % (from 0.3 %). Indeed, more than half of Haiti's 1952-53 exports went to Europe. In any event, it cannot be said with certainty that the United States will continue to predominate in Haiti's economic and financial affairs. Even if it does, Haiti will not necessarily want to follow blindly any and every possible change in the value of the dollar. [3]) By defining its currency in gold, or in dollars of a specific gold content, Haiti could reserve for itself freedom of decision in the light of whatever circumstances might prevail when the value of the dollar changed. The chances are that it would then choose to follow the dollar completely, but at least it would have had the opportunity to consider the pros and cons and to act of its own free will.

The Fiscal System in 1950

As already indicated, in Haiti the fiscal function is divided between two agencies: the Finance Department and the Fiscal Department. The Finance Department is a Government Department or Ministry; the Fiscal Department is legally part of the National Bank, although physically located in the same building as the Finance Department. All internal revenue, including municipal taxes, is collected by the General Tax Office, a so-called "special division" under the supervision of the Secretary of State for Finance. All customs revenue is collected by the Fiscal Department, which is also charged with auditing internal revenues and the Government's expenditures. Further auditing of expenditures is carried out later by a legislative committee of 6 senators and 9 deputies assisted by accountants. The budget is submitted to the Cabinet (Council of Secretaries of State) early in January, and to the Legislature during the first fortnight of each regular session, which opens in April.

Haitian budget estimates have been based largely on rough estimates of the world price of coffee and of the value of other exports. Once a figure for total expected exports is thus obtained, it is

2) The Haitian fiscal year begins October 1.

3) An example may be cited from the Middle East. In 1949, despite its overwhelming dependence on India and other devaluing countries as markets, Pakistan did not devalue its currency when the Indian rupee (simultaneously with some 50 other currencies) was sharply devalued. Defying predictions of catastrophe because of its failure to devalue, Pakistan has successfully maintained the stability of its currency and has also made rapid progress economically.

assumed that imports will come to approximately the same total value as exports, since such has usually been the case in the past. Total customs revenue is then calculated as 20 % of the combined export and import estimates, i.e., at the approximate average percentage which has prevailed in the past. Internal revenues are estimated by projection of the past trend, with occasional allowance for the influence of special circumstances, such as the effect on Haitian incomes of the recent boom in coffee prices. Expenditure estimates have been for the most part the unvarnished figures presented by the various Government departments, with any cuts necessary to adapt them to the over-all revenue estimates but without centralized determination of priorities. The fact is, however, that Haitian expenditure estimates until 1951 were essentially a list of salaries paid to Government personnel, with a few additions for the cost of materials, office supplies, and road maintenance. Other items were left for special action, i.e., for the voting of an "extraordinary credit" by the Legislature.

Of the Government's total receipts, over 70 % have come from the customs, and of the latter, in turn, over 70 % have been from import duties. The customs tariff, strictly for revenue, has not aimed either at protecting local enterprise with a view to the country's economic development nor at influencing general economic conditions in Haiti. Through a dual system of ad valorem and specific rates, however, the Government has protected itself against any violent drop in the revenue from import duties.

Haiti has an income tax which is applied in several ways, according to the type of taxpayer. There is the tax on individual incomes, the tax on business profits as reported in company balance sheets, and the lump-sum income tax paid by small business concerns which keep no accounting records. All of these are applied at the same progressive rates, ranging from 5 % on incomes of $ 3.000 or less to 30 % on incomes in excess of $ 40.000. The individual income tax is modern in the sense that it is deducted from business pay-rolls and paid to the Government quarterly by the reporting business houses. Until 1952 there appeared to be no thorough system of checking the completeness of the taxpayer's final returns with respect to income from other sources (rent, dividends, interest, capital gains, etc.) but this defect is gradually being remedied.

Administration of the three forms of income tax in 1950-51 was evidently in need of improvement, as less than 3.000 taxpayers were on the roll and the combined yield of the three taxes represented only 8.4 % of the Government's total revenues. Two years later, thanks to improved administration, the number of income tax-

payers had risen to 7.300 and the yield of the three taxes had increased to 11.5 % of total revenues.

Haiti had in 1950 no general real estate tax, which at first sight seems odd for a densely populated country, where it would be logical to exert through taxation some degree of pressure on property owners to put their properties to good economic use. There were two taxes on city real estate — the frontage tax and the rent tax — but both were collected at rates which seemed low in comparison with real estate taxes levied in the United States, even after allowance for the difference in income levels. [4]) There were, however, two formidable obstacles to the levying of a general real estate tax: (1) the diminutive size of agricultural plots, which averaged only about three acres; (2) the chaotic state of land titles, in the absence for 150 years of any system of recording titles. In the face of these obstacles, the collection of a general real estate tax might have cost more than it produced. Moreover, was it not much easier to make the small landholder contribute to the exchecquer indirectly through export taxes? Nominally paid by the exporters, these taxes were in fact deducted, in whole or in part, from the price paid to the peasant producers.

Haiti has inheritance and gift taxes, but at rates which appear modest in comparison with such taxes in most other countries. [5]) Moreover, these taxes take into account only the degree of relationship between the parties concerned; a bequest or gift of $ 100.000 pays no higher rate than one valued at $ 1.000.

There is no special tax on capital gains, and no clear reference in the income tax law to capital gains as a form of income. To the extent that capital gains of business houses are reflected in balance sheets, they are taxed as income. It is questionable, however, whether individuals having windfall profits on the sale of real estate would feel constrained to include such gains as "income" in their tax returns. As such profits have been not at all infrequent, real estate investment and speculation have had a special attraction for well-to-do Haitians. The faillure to tax real estate profits has been one of several factors hampering the growth of a Government securities market in Haiti, since the yield obtainable on Government securities has not been comparable with either the yield or the capital gain possibilities on real estate.

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[4]) The frontage tax was calculated at rates ranging from 0.25 to 2.00 gourdes per annum per meter, depending on the size of the community. Basic rates for the rent tax were from 3 to 3½ % of annual rental value; that part of rental value in excess of $ 240 was subject to a 1 % surtax, up to a $ 1200 rental value, and to a 2 % surtax beyond that figure.

[5]) On real property, the inheritance and gift tax rates range from 1 % to 8 %. On personal property, lower rates apply.

On the score of public debt, Haiti's record is praiseworthy. It has been one of the best in Latin America, if not in the world. The debt was reduced from $ 35.4 million in 1918 to $ 8.1 million in September 1950. [6]) There were no defaults during this period; indeed, debt repayments were often made well in advance of maturity. A mild criticism might, however, be levelled at the public debt statement, which failed to show either the Government's occasional borrowings from the National Bank, or debts guaranteed by the Government. The latter consisted primarily of the outstanding balance of a $ 5.000.000 loan made by the Export-Import Bank in 1940 to SHADA (the Société Haitiano-Américaine de Développement Agricole), which had been jointly set up by the Governments of Haiti and the United States.

Economic Stability and Development (1951-?)

The Beginning of Development Planning

Economic development on a vigorous, systematic scale did not get under way in Haiti until the Magloire Administration took office in December 1950. However, mention should be made of two preminiminary steps toward development which were taken by the Estimé Government in 1949. The first of these was a law which provided partial tax exemptions for new industries established in Haiti. Thus, any industry of a new type was exempt during its first year from all customs duties and from 50 % of the income and occupational taxes. Thereafter, for four more years, it continued to enjoy customs exemption and a 20 % exemption from occupational taxes. Industries which were new, but not the first of their kind in Haiti, enjoyed more limited exemptions. While the incentives offered to new industry by this law were by no means negligible, they were less attractive than those offered by the legislation of some other underdevelopped countries, notably Puerto Rico.

The second step taken in 1949 in the direction of economic development was the signing of a contract with the Export-Import Bank under which that institution agreed to lend the Haitian Government $ 4.0 million for flood control, irrigation, drainage, and agricultural development in the valley of the Artibonite River, Haiti's principal waterway. Early in 1951 the Export-Import Bank was persuaded to increase this credit to $ 14.0 million to cover the cost of a reservoir dam and make possible the later development of

[6]) In September 1952 a low point of $ 5.7 million was reached.

hydroelectric power. The revised contract provides for reimbursement of not more than 80 % of the Government's expenditures in connection with the contruction phases of the project, and of a portion (to be determined by the Export-Import Bank) of its expenditures for agricultural development and resettlement in the Valley. Advances made for construction costs may not exeed $ 13.5 million; the remaining $ 500.000 of the credit is reserved for the agricultural development and resettlement phases. Thus, of the total estimated cost of the project the Haitian Government is legally obliged to finance at least 20 percent out of current revenues. In practice, the portion to be financed in this way will be much more than 20 %. The Government has been devoting $ 2.0 million annually to this purpose and for 1953-54 and 1954-55 is raising this amount to $ 2.5 million. The interest rate on amounts advanced by the Export-Import Bank is 3½ %. Amortization in 36 semi-annual payments is to begin on September 16, 1956.

With the advent of the Magloire Administration, a comprehensive program of economic development was for the first time envisaged. Early in 1951 the Haitian Government adopted a Five-Year Plan contemplating the expenditure of $ 40 million for basic investments needed to get economic development started. These funds were to be applied approximately as follows: 25 % for road construction and improvement, 21 % for agricultural purposes (including soil conservation, reafforestation and irrigation), 16 % for urban improvements, 13 % for education (including school construction), 13 % for public health (including clinics and dispensaries), and 12 % for purposes not determined in advance.

In execution of this program, the Haitian Government contracted with foreign concerns to pave the main highway from Port-au-Prince to Cape Haitian on the northern coast. This work is well under way and is expected to be finished in 1954. Worker's housing developments have been completed at Port-au-Prince and Cape Haitian, and others are under construction. Electric power plants have been erected in some of the smaller towns, school facilities have been expanded, clinics and dispensaries have been opened throughout Haiti, numerous demonstration farms have been started, and a variety of other improvements have been brought about. Outside the Five-Year Plan, the Government contracted with the American-owned Dauphin sisal plantation to finance the paving of the road from Cape Haitian to the Dominican border and the construction of a modern airport at Cape Haitian.

During the first two years of the Five-Year Plan, expenditures were financed mainly out of revenues collected in excess of budget estimates. Thereafter, some funds were borrowed to make possible

the uninterrupted execution of the major projects during a period of slackening export and tax collections. [7])

Provision of New Credit Facilities

In September 1951, in order to fill a vacuum in domestic credit facilities, legislation was approved creating the Haitian Institute of Agricultural and Industrial Credit, jointly owned by the Government and the BNRH. The new bank opened for business in February 1952 with an authorized capital of $ 2.000.000, of which onehalf was paid in. By way of supplementing the Institute's capital. the law required certain exporters and others to subscribe to 4 % non-negotiable bonds of the Institute [8]) which the latter was authorized to issue up to a maximum of $ 10.000.000. In September 1952 the authorized capital of the Institute was increased to $ 5.000.000.

The Institute operates under the supervision of the Board of Directors of the National Bank. The maximum interest rate which it may charge is 7 %. Credits are granted only after inspection of the borrower's property and subject to continuing guidance and supervision of the borrower's affairs by the Institute technians. With certain exceptions, aggregate credits to any one borrower are limited to 5 % of the Institute's capital and surpls. A special department in the Institute is charged with stimulating the creation of agricultural cooperatives; a United Nations expert in cooperatives assists in this task, in which encouraging results have already been obtained.

Up to May 31, 1954 the Institute had made loans and investments, mostly at long or medium term, totalling almost $ 2 million. As of the same date, its paid-in capital likewise stood at just under $ 2 million.

Membership in International Bank and Fund

Haiti's previous failure to protect itself against balance-of-payments swings and against a shortage of capital for economic development was remedied in September 1953, when it became a member of both the International Monetary Fund and the Inter-

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[7]) Exports and tax collections have again risen substantially, thanks to a bumper coffee crop in 1953, a steep rise in the world price of coffee, and the inauguration last year of a new, temporary tax on coffee exports.

[8]) By a subsequent amendment, the compulsory bond purchases by coffee exporters were converted into a tax, used to increase the Government's contribution to the Institute's capital. Sisal exporters have to invest in Institute bonds at the rate of ½ U.S. cent per pound of sisal exported. Borrowers from the Institute must invest 5 % of their loan proceeds in Institute bonds.

national Bank, with a $ 2.000.000 quota in each. The BNRH was appointed the Government's agent for all transactions and negotiations with the Fund and Bank. So far there has been no occasion for Haiti to apply to either the Fund or the Bank for financial assistance, but consideration is being given to two possible forms of borrowing from the Bank: (1) to cover the dollar requirements for imports made under credits granted to local borrowers by the Institute of Agricultural and Industrial Credit; (2) to permit the construction of an electric power plant at the Artibonite dam. Preliminary discussion of these borrowing possibilities were held with a "get-acquainted" mission of the International Bank which visited Haiti recently.

Reorganization of the Banking and Monetary System

In April 1953 the Haitian Government announced its intention of making certain improvements in its banking and monetary system, in consultation and agreement with the National Bank and the monetary and fiscal expert of the United Nations. Detailed proposals drawn up by the writer are now being studied by the Government and the National Bank. These proposals may be briefly summarized as follows:

An autonomous Monetary Department to be set up within the National Bank would take over full responsibility for the issuance of both notes and coins. The Monetary Department would have its own balance sheet and would be under the supervision of a Monetary Board, whose membership would partly overlap with that of the reorganized Board of Directors. The latter now consists of 5 voting members, 3 of whom are also officers of the National Bank. The new members of the Board of Directors, also 5 in number, would be appointed (like the present members) by the President of the Republic, but would be chosen in such a way as to insure a variety of knowledge and experience in the fields of finance, economics, agriculture, industry and commerce. As at present, the Secretary of State for Finance would be Honorary Chairman of the Board of Directors, without a vote (except in case of a tie). He would serve in a similar capacity on the Monetary Board. The General Manager of the Monetary Department would be Chairman of both the Monetary Board and the Board of Directors. Besides its Chairman, the Monetary Board would have as voting members the General Manager of the Fiscal Department, the Manager of the Agricultural and Industrial Credit Institute, and the two members of the Board of Directors chosen for their special knowledge of (1) finance or economics, and (2) commerce or industry.

The Monetary Department would be charged with the creation and maintenance of the monetary and banking conditions most conducive to economic stability, the steady growth of the national output, and the full utilization of the national resouces. It would be responsible for maintaining at all times stability of the internal value of the gourde, stability of the dollar exchange rate at the existing 5-to-1 level, free convertibility of the gourde in gold or dollars, and the solvency and liquidity of the banking system. To implement these aims, it would be given all of the powers customarily granted to central banks, such as the power to rediscount for and make advances to other banks (including the Commercial and Saving Departments of the National Bank and the Institute of Agricultural and Industrial Credit), to engage in open market operations in short-term securities, to buy and sell gold and foreign exchange, to fix and regulate reserve requirements for the other banks, to put limits on the rate of growth of the banks' loans and investments, to fix maximum interest rates applicable to deposits and loans, to fix and modify minimum required ratios between the banks' capital and surplus and their short-term liabilities, and between their capital and surplus and their risk assets. The Monetary Departments would be prohibited from making loans to the Government or its agencies, but the Commercial Department would be authorized to make short-term advances to the Government up to 10 % of the average Government revenues of the preceding three years. The Monetary Board would serve as the Government's consultative body for all of the financial and fiscal problems and policies of the State and its subdivisions and would in particular be consulted before any domestic or foreign borrowing was undertaken.

The proposals also call for the creation of a Savings Department within the National Bank, with a separate balance sheet. This department would be charged with an intensive campain for the stimulation of savings in Haiti. The savings habit, so far as it exists, now usually takes the form of burying money in the ground. It is believed that, as economic development proceeds, sizable savings deposits can be stimulated in Haiti through publicity, attractive interest rates, the organization of deposit and withdrawal facilities through schools and postoffices, and the offer of a variety of types of deposit, including the so-called "capitalization" accounts which are practiced in some countries and which involve a lattery feature that is attractive to the average Latin-American.

As to the monetary unit, the present 5-to-1 ratio between the gourde and the dollar would be maintained. The dollar would cease to be legal tender in Haiti, except for the transactions of tourists.

Haitians could continue to hold or buy dollars if they wished, but after a certain date any dollars they might bring to the National Bank for exchange into gourdes would be subject to a small commission charge; after a few months, this charge would be increased. It is expected that a sizable part of the dollars now in circulation would be turned in for gourdes before the commission charge became effective. No commission would be charged to anyone who might wish to re-convert his gourdes into dollar notes, but since these would no longer be legal tender and since all accounts, payments, salaries, rents,, etc. would be compulsorily expressed in gourdes, it is not expected that many people would want dollars for domestic use. For foreign travel and foreign payments, of course, dollars wounld continue to be freely used — dollar notes and travellers cheques for travel, and dollar drafts or bank transfers for payments. Moreover, foreign banks, merchants and investors would be assured of the free convertibility into dollars at any time of whatever gourde claims they possessed.

The monetary and banking proposals put great emphasis on the importance of two things: (1) the maintenance of the present value of the gourde in terms of dollar and gold; (2) the assurance that at all times the gourde shall be freely convertible into dollars (and perhaps eventually into gold). These two principles are the keystones of any monetary and banking reform in Haiti, if it is to be successful and worth-while.

The proposals included a recommendation that, in order to encourage the opening of new banks in Haiti, the requirement of a paid-in capital of $ 1.000.000 be radically reduced. This recommendation was implemented in a 1952 law which fixed the new requirement at $ 100.000 of paid-in capital. The same law also fixed minimum reserve requirements for banks, in anticipation of later, more detailed legislation. [9])

Monetary-Fiscal Coordination

In a small, undeveloped export economy such as Haiti's, a close harmony between monetary policy and fiscal policy is not only more essential but also more difficult than in a big, industrialized economy. In any country, a monetary inflation may originate in one of three ways: (1) through excessive demand for credit on the part of domestic business; (2) through excessive bank credits to the Government; (3) through an abnormal surplus in the balance of

[9]) While no new bank has begun operations since the capital requirements were lowered, several American and European financial groups have surveyed the possibilities and one American group has applied for and received permission to open a bank with a paid-in capital of $ 500,000.

payments. The danger of inflation through the second and third factors is more acute in a small, undeveloped country than in a big, industrialized country. As regards the second factor, since the Government usually cannot have recourse to a domestic capital market to finance a budget deficit, it is under a stronger temptation to turn to the central bank for financial assistance. As regards the third factor, the importance of a balance-of-payments surplus in relation to the level of national income is usually greater in a small, undeveloped country than in a big, developed economy. Moreover, the undeveloped country has fewer possibilities of offsetting the inflationary effects of a balance-of-payments surplus through domestic measures. In order to avoid inflation during a boom period, therefore, the little agriculture country will have to bring into play every possible defense — in the monetary and fiscal fields especially — which can contribute to the maintenance of stability. The measures adopted in the monetary and fiscal fields must be perfectly harmonized if a maximum of economic stability is to be attained.

The writer has recommended to the Haitian Government that its tax system be reviewed regularly from the viewpoint of the system's impact on the level, distribution and stability of the national income. Fiscal policy should be directed toward sustaining national income, so far as possible, at a high but not exaggerated level, and should as a long run proposition assure a reasonable distribution of the national income among the principal broad categories of the population. This very difficult task cannot be done to everbody's satisfaction, even with the help of a streamlined monetary policy. But it is a task which should not be neglected in a small export economy which would outherwise be at the mercy of the powerful forces released by the economic cycles of the big, industrialized nations.

The aim of such a fiscal policy is clearly not just to balance the Government's budget. But neither is it to sacrifice budget equilibrium to stability of the national income. Both aims must be kept in view. In order to keep the national income relatively stable, the Government should avoid abruptly slashing its expenditures (especially capital expenditures) when exports and prices decline. In order that such a policy should not result in a sudden, big cash deficit, the State should have a reserve fund, accumulated and left unused in prosperous times, which could serve to fill the gap in current receipts. Haitian budget surpluses attained in good times could either be placed on interest-bearing time deposit with the National Bank or be used to reduce any outstanding Government indebtedness to the National Bank. In practice, a fiscal policy of

the sort described can never be applied in an ideal manner, but to the extent that it can be achieved, its effects can only be beneficial.

The type of tax best suited to such a policy is one whose yield increases or decreases in rough correspondence with a rise or fall in the taxpayer's income — in other words, the general income tax. Other Haitian taxes also fulfill to some extent the requirements of such a policy — notably certain excise taxes on luxuries and semi-luxuries, certain customs and consular taxes, and the stamp taxes. But in general, fluctuations in individual incomes are reflected only moderately in the yield of Haitian taxes. A number of changes in the income tax have been recommended in order to make it more responsive to the needs of fiscal policy. It was suggested that the Director General of the Tax Office be authorized, in consultation with the Secretary of State for Finance and the Monetary Board, to alter temporarily certain provisions of the tax in times of depression or inflation. The anti-depression measures would be: (1) doubling the present limitation (25 % of profits) on the amounts deductible as reinvestments in the enterprise; (2) doubling the rates of depreciation normally permissible; (3) permitting losses to be carried forward for at least 3 years, to the extent that they exceeded the loss reserve; (4) authorizing deductions from income of amounts invested in new enterprises approved by a proposed National Development Institute (or in its absence by the Monetary Board); (5) authorizing such deductions for farmland improvements and for purchases of agricultural equipment or machinery which raise productivity or improve quality.

As an anti-inflationary measure, the limitation on amounts set aside as a reserve against losses could be increased severalfold from the present figure of 10 % of net profits. In addition, a deduction from income should be allowed for interest received on savings or other bank deposits.

Should depression come at a time when no budgetary reserve has been accumulated or when the reserve is inadequate, the Government's ability to borrow at home or abroad becomes very important. It is precisely in a period of depression that foreign borrowing would be most logical and helpful. The funds borrowed abroad would not only finance the budget deficit but would also strengthen the balance of payments, which would have been weakened by a drop in the volume and prices of exports, and they would at the same time help sustain the national monetary reserve and the level of bank credit.

Creation of a Domestic Securities Market

The Government should, however, avoid complete dependence

on foreign borrowing and should gradually develop a domestic securities market. One of the principal obstacles which most undeveloped countries have found to the creation of such a market is a lack of faith in the stability of the currency. In Haiti, this obstacle does not exist. Gourde notes are as acceptable as dollar notes; indeed, some Haitians prefer the gourde notes, and private hoards are usually in that form or in coin. Haiti's long record of currency stability and convertibility and the freedom from exchange control is unique in a world that has been plagued by currency troubles. Thus, the creation of a securities market in Haiti is not impeded by any lack of confidence in the currency. What does constitute an obstacle, however, is the existence of attractive investment opportunities which involve no issue of securities. Owing to the inadequacies of real estate taxation, the ownership of real property is particularly remunerative, not only from the viewpoint of steady income but also from that of speculative profits. Moreover, real estate mortgages, at rates of 12 % per annum upward, are constantly bidding for idle money. Private money-lenders have no trouble in getting much higher interest rates on loans made for commercial, agricultural or consumption purposes.

The Government is approaching this problem of creating a securities market in several ways: (1) It has sought and obtained authority to issue a moderate amount of very short-term Government securities, and plans to offer Haitions soon the opportunity to buy 6, 9 and 12-month Treasury bills at a yield competitive with that obtainable on other investments of similarly short maturity. Once the public gets in the habit of investing in Government securities, a gradual lengthening of maturities can take place in accordance with the market possibilities. (2) It has obtained authority to set up a Securities Exchange, where all types of local and foreign securities can be traded. The regulations of this Exchange will be drafted only after a thorough study has been made of the various possible set-ups and of the experience of other countries in establishing such exchanges. (3) The real estate frontage tax has been converted into an improved property tax, with somewhat higher rates based on property values and applicable throughout Haiti.

When the banking reorganization is completed, additional support for a Haitian securities market will be available in the form of: (1) the ability of the Monetary Department to rediscount short-term Government securities and to make advances to the other banks against the collateral of any marketable securities; (2) the ability of the Savings Department to buy Government securities (but not directly from the Government).

While the building up of a domestic securities market is desir-

able, if not essential, the Government will have to bear in mind that Rome was not built in a day. If it is to succeed in this task, it will have to restrict its issues to the amounts and types of securities which investors can and want to absorb. Should it succumb to the temptation of issuing more than is wanted of a particular type of security, it can destroy all chance of creating the steady, dependable market which it seeks to bring into being. It must also remember that a securities exchange is, after all, only a device for facilitating transactions for which there are already potential and willing customers. The existence of a formal exchange does not in itself guarantee that transactions will take place. Conversely, if conditions are right, transactions can take place without any formal exchange organization. [10])

Setting Up of a Budgetary Reserve

In its 1953-54 finance law, the Haitian Government made provision for a budgetary reserve, to be built up gradually as surplus revenues are achieved. The high price of coffee is being used as a lever for this process. In the summer of 1953 a heavy but provisional (2-year) tax was placed on coffee exports sold at more than $ 40 per 50 kilos f.o.b. This tax alone, it now appears, will bring in during fiscal 1953-54 nearly $ 4.5 million, which compares with the total budget revenue estimate of $ 25.6 million. The proceeds of the new tax, however, go not into the budget, but into a special account of which $ 2.5 million is remarked for a variety of public works and agricultural development. The remainder goes into the budget reserve.

The Improvement of Budgetary Controls

An important step recently taken by the Government has been the creation of an Inspectorate General of Finance. The principal duties of this office, which is attached to the Department of Finance, are to prepare the budget estimates on a more scientific basis than has prevailed in the past, to revise the estimates as conditions change or better information warrants, to record and control commitments entered into by all Government departments and agencies, to insure that no unauthorized or improper expenditure of Government funds is made, and to keep the central accounting and inventory records of the Government.

The Coordination of Development Planning

In recent months, moreover, the Government has taken certain steps toward the achievement of centralized economic development

10) Even in New York today, much the greater part of all securities (particularly Government bonds) are bought and sold outside the two stock exchanges.

planning. A Planning Office has been created within the Department of Economic Affairs, and the Government has carried on negotations with a foreign engineering company of high standing and long experience for the execution of a wide and diversified program of public works, the timing and priorities of the various projects to be determined jointly with the engineers and in consultation with the bankers who would finance the program. In order to facilitate the issuance and service of the bonds under the proposed program, it is likely that the Government will consolidate into a new, long-term issue the outstanding bonds of the 5 % Internal Loan 1947-57. The latter, which are held mainly by the BNRH and various Government trust accounts, are now being amortized at the rate of $ 1.000.000 per annum. [11])

Another possible instrument of centralized planning is SHADA, which the Government recently turned over to the Agricultural and Industrial Credit Institute for reorganization and management. [12]) By gradually extending SHADA's activities to new agricultural and industrial fields, the Institute's technicians could convert SHADA into a national economic development institute, thus making it unnecessary for the Government to set up a new organization for this purpose.

Conclusion

For a century and a half, Haiti has been politically independent and awake but economically weak and dormant. From its uneasy slumber, the country has at last awakened and has given clear signs of its intention to bring all of its economic resources into play in order to increase the national output and raise the social and economic level of its people. Are Haiti's human and natural resources adequate to the task, and can economic development be achieved without sacrificing economic stability? The answer to both questions is definitely "yes". Haiti's soil, under the hand of a people liberated from ignorance and disease and endowed with new skills, can become far more productive than it is today. Economic development without inflation is possible under a reorganized banking and monetary system operating with the support of an enlightened fiscal policy.

11) Since July 15, 1954, only $ 3,000,000 of this loan remains outstanding.

12) SHADA, or Société Haitiano-Americaine de Développement Agricole, was launched in 1940 jointly by the Haitian and American Governments, largely as an adjunct to the United States' efforts to develop Latin American sources of strategic materials. SHADA's original program of developing vine-rubber (cryptostegia) was a complete failure. In recent years the company has concentrated on the exploitation of Haiti's pine forest for lumber, and on the growing of sisal and tree-rubber.

LA POLITIQUE MONETAIRE – FISCALE ET LE DEVELOPPEMENT ECONOMIQUE EN HAITI

PAR O. ERNEST MOORE

RESUME

Dès qu'elle cessa d'être une colonie française en 1804, Haiti commença à émettre une monnaie appelée gourde. En 1910, lorsque la gourde avait perdu les quatre cinquièmes de sa valeur à la suite de désordres politiques et fiscaux, une concession de Banque d'Etat fut accordée à la Banque Nationale de la République d'Haiti (BNRH), propriété d'un consortium de Banques étrangères, et un emprunt de 67 millions de francs fut contracté pour la consolidation de la dette et la réforme de la monnaie. Mais on n'avait pas réussi à se mettre d'accord sur les modalités de cette réforme lorsque les troupes américaines débarquèrent en juillet 1915 pour restaurer l'ordre politique et initièrent une occupation qui devait durer 19 ans. Un Receveur Général des Douanes et un Conseiller Financier furent nommés par le Président des Etats Unis pour assainir les finances et assurer le service de la dette externe. En 1919 s'effectua une réforme monétaire par laquelle la BNRH obtint le monopole d'émission des billets gourdes, qui seraient convertibles en dollars au taux de 5 : 1 sur présentation à ses guichets. Le dollar aussi bien que la gourde avait cours légal. La National City Bank of New York devint en 1920 seul propriétaire de la BNRH. Ainsi commença une période de plus de 30 ans de tranquilité et équilibre économique.

En 1922 le Gouvernement Haitien émit sur le marché américain un emprunt 6 % de $ 23.7 millions pour le remboursement des obligations 1910 et la consolidation de la dette interne. L'amortissement du nouvel emprunt fut plus rapide même que ce qu'exigeait le Contrat, et le service de la dette absorba parfois jusqu'à un tiers des revenus de l'Etat. En 1935, deux ans après le départ des troupes américaines, le Gouvernement acheta la BNRH de la National City Bank, mais un Représentant Fiscal désigné par les américains était prévu. En 1941 on créa à la BNRH un Département Fiscal pour remplacer le Représentant Fiscal, mais la moitié des membres du Conseil d'Administration, qui était chargé du contrôle du budget de l'Etat, devaient être des américains. En 1947 la libération financière se réalisa au moyen de l'Emprunt Intérieur 5 % de $ 10 millions, dont une partie fut employée au remboursement de l'Emprunt de 1922.

Sous l'inspiration du Président Magloire, élu en 1950, Haiti

commença une nouvelle phase de son histoire dans laquelle le développement économique, complètement ignoré ou délaissé auparavant, est recherché sans le sacrifice de l'équilibre économique. Mais le système monétaire ne s'adaptait pas bien aux nouveaux buts. La BNRH était Banque d'Etat et banque commerciale, mais non banque centrale habilitée à poursuivre une politique monétaire nationale. Bien que possédant une très forte réserve d'or et de dollars, elle ne pouvait pas s'en servir de manière adéquate ni pour l'expansion du crédit ni pour défendre la gourde à l'échelle internationale, à cause de règles de couverture rigides qui n'étaient pas bien adaptées au milieu. La BNRH n'avait aucun droit de surveillance sur les autres banques et n'était pas „prêteur en dernier ressort". L'existence de deux monnaies ayant cours légal, dont l'une circulait en quantités inconnues, était incommode, couteuse, et eventuellement dangereuse. La rigidité du lien entre gourde et dollar privait Haiti de toute souveraineté monétaire.

Le système fiscal aussi manquait de la souplesse nécessaire pour faciliter le développement économique tout en sauvegardant l'équilibre économique.

En 1949, on chercha à encourager l'établissement de nouvelles industries en leur accordant certaines exemptions fiscales et le Gouvernement obtint de l'Export-Import Bank un crédit de $ 4 millions (augmenté en 1951 à $ 14 millions) pour l'irrigation et l'aménagement de la Vallée de l'Artibonite, principale rivière d'Haiti. En 1951 le Gouvernement et la BNRH créèrent conjointement l'Institut Haitien de Crédit Agricole et Industriel qui, entre autres choses, stimule activement la création de coopératives agricoles. En 1953, Haiti devint membre du Fonds Monétaire et de la Banque Internationale, et le Gouvernement annonça son intention de réorganiser le système bancaire et monétaire en collaboration avec les dirigeants de la BNRH et l'expert financier des Nations Unies. Celui-ci a recommandé les modifications suivantes:

(1) Création dans le cadre de la BNRH d'un Département Monétaire autonome qui aurait seul la responsabilité d'emission de billets et de pièces métalliques. Le nouveau Département serait administré par un Conseil Monétaire, dont les membres seraient tirés en partie du Conseil d'Administration de la BNRH. (2) Attribution au Département Monétaire de tous les pouvoirs normalement possédés par les banques centrales. (3) Adoption de nouvelles règles de couverture et de réserve monétaire, plus flexibles que les règles actuelles. (4) Stimulation de l'épargne par l'intermédiaire d'un Département d'Epargne. (5) Suppression du cours légal pour le dollar et déduction d'une commission sur les dollars apportés à la

Banque après un certain délai. (6) Libre convertibilité en dollars (et éventuellement en or) des créances en gourdes détenues à l'étranger, au cours de 5 pour 1.

L'efficacité de la politique monétaire formulée sous le nouveau système serait augmentée par l'adoption d'une vraie politique fiscale et la coordination des deux politiques. La politique fiscale devrait rechercher le maintien d'un revenu national élevé mais non pas exagéré. Les dépenses fiscales ne devraient pas être réduites subitement lorsque le volume et la valeur des exportations baissent. L'Etat doit accumuler dans les années prospères une réserve budgétaire, à laquelle il aurait recours au moment d'un déficit. L'impôt qui s'dapte le mieux à une telle politique est l'impôt sur le revenu. L'auteur a recommandé certaines modifications de cet impôt pour le rendre plus souple et pour augmenter le potentiel de son influence sur les conditions économiques. Une influence peut aussi être exercée par les emprunts à l'étranger et leur remboursement. Une dépendance complète sur l'étranger doit être évitée par la création graduelle d'un marché interne de capitaux, auquel on offrait en premier lieu des émissions à très court terme dans des limites modestes. Une plus forte taxation des investissements en biens immobiliers pourrait encourager les placements en titres.

Des mesures ont déjà été prises pour la création d'une réserve budgétaire avec une partie des recettes provenant d'une taxe extraordinaire sur le café. Un meilleur contrôle budgétaire est en voie depuis la création d'un Inspectorat Général des Finances. La coordination essentielle des projets de développement économique a été mise en train de deux façons: (1) en créant récemment un Bureau du Plan au Département de l'Economie Nationale; (2) en négociant avec une grande firme de génie de bonne renommée en vue de la réalisation d'un programme compréhensif de travaux essentiels, dont la priorité et les conditions d'exécution seraint arrêtées d'accord avec les ingénieurs et les banquiers qui financaient le programme.

Après 150 ans de stagnation, le développement économique d'Haiti est en marche. A l'aide d'un système bancaire et monétaire réorganisé et une polique fiscale éclairée, ce développement doit pouvoir se faire sans inflation.

RECENT TRENDS IN FEDERALISM

BY R. N. BHARGAVA, M.A., D.Litt.,

Department of Economics, University of Allahabad.

The unmistakable sign of our times is the tendency towards centralization in all federations. There has been an increase in the authority of the federal government, which has establihed its supremacy. This result has, however, not been due to any deliberate attempt on the part of the federal government. Often is has been achieved with the consent and goodwill of the state governments, though sometimes they have been chary about it. This centralizing process has been helped by the integration and unification of economic life, which is a characteristic feature of our age. In times of economic depression the federal government alone has the national outlook requisite to handle welfare and relief measures. It has come to be realized that a high level of employment, economic stability and social security are no less important than defence. Planned economic development also necessitates co-operation of regional governments. Besides, many subjects which were regarded as local tend to assume a national importance. Soil erosion has to be checked at the source, though the benefit may accrue to some other regions as well. A serious epidemic in one locality may endanger vast areas unless it is effectively controlled. Lack of education and medical facilities in some areas may weaken a section of the new generation, which may be harmful to the nation as a whole. Floods, fires and draughts on a large scale may cause national disaster. The federal government is, therefore, forced to take action in spheres hitherto regarded as the exclusive preserve of the regional governments. In times of war some regimentation of economic and social life, owing to the totalitarian nature of modern wars, is inevitable. Along with this functional centralization there has been an increasing unification of finance rendered possible by the growth of big business. The tax base has extended and such taxes are more efficiently handled by the federal government. Further, the federal government, due to financial pressures, has exploited more intensely the fiscal powers assigned to it. The direct-indirect dichotomy has been given up and the federal governments have every-where entered the field of direct taxation [1]) which formerly, through a tacit agreement, was left to the states. In Australia estate duties were levied by the federal government for the first time in 1914 and a federal income tax was imposed a year later. The

[1]) This "ensures a lively public interest in federal finance that acts as a wholesome check on extravagant expediture". Robbins, 'Essays on Canadian Economic Problems', Vol. III, p. 23.

federal government in Canada entered the income tax field in 1917. Under section 109 of the Constitution in Australia and in accordance with a decision of the Judicial Committee of the Privy Coucil in Canada [2]) the federal government seems to have powers to keep direct taxation exclusively to itself. The present income tax in the United States dates from the XVIth Amendment to the Constitution in 1913, though so far the federal government has asserted no power to exclude the state governments from this field. In Switzerland the federal government has levied direct taxes since World War I. These developments have changed the nature of the federal tax structure in all the federations. Before World War I the United States relied exclusively on customs and excises, which in 1890 contributed about 99 per cent of federal revenues. The other federal governments also depended almost exclusively on customs and excises. In 1951-52, however, taxes on income formed 51 per cent of total federal revenue in Australia, 54 per cent in Canada and 83 per cent in the United States. The total revenue from this source was £A 487 millions, $C 2172 millions and $ 52,224 millions respectively. This has made federal taxation highly progressive, though half a century ago it was regressive in character. This has been a desirable development. In view of the inter-state nature of the tax base such taxes can be more efficiently handled by the federal government, which thereby becomes a relatively more powerful financial authority. In normal times the functions of the federal government are not expensive and it thus has an excess capacity to raise revenue whereas the state governments have to perform expensive services but lack the capacity to raise adequate funds. This has necessitated a system of federal grants in all the federal states.

The suppremacy of the federal authority has been etablished through constitutional amendments, federal-state co-operation, legislative interpretation and a federal system of grants. When the federal income tax in the United States was declared a direct tax by the Supreme Court in 1894 [3]) the XVIth Amendment was adopted in 1913 enabling Congress to impose the tax "without apportionment among the several states and without regard to any census or enumeration". In Autralia the only important constitutional amendment pertaining to finance was passed in 1928 to give effect to the powers originally used in the Financial Agreement of 1927 which placed restrictions on the rights of the states to raise loans. In Canada, on the recommendation of the Royal Comission

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2) In re Silver Bros. (1932) A.C. 514 at p. 521.

3) Though in 1868 the earlier federal income tax was held to be an indirect tax.

on Dominion-Provincial Relations, the British Parliament, with the consent of all the provincial governments, amended the British North America Act in July, 1940 to enable the Dominion Government to institute a national system of unemployment insurance. Similarly, the powers of the federal government have been increased through constitutional amendments in Switzerland. Under the Constitution of 1948 the federal government was allotted only customs and practically no other taxing powers; but, through constitutional amendments during World War II, the federal government has entered the field of direct taxation and excluded the regional governments increasingly from that sphere, though some assignments have been given to them. The Swiss federal government has also been assigned control of accident and sickness insurance, old age and widows' pensions and the counteracting of certain contagious diseases through constitutional amendments. In Australia the Commonwealth Parliament was authorised in 1946 to legislate upon certain social services including children's allowances, unemployment and sickness benefits.

Federal-state co-operation to a large extent ensured the success of the New Deal measures in the United-States. In Canada Dominion-Provincial Conferences, which have met at irregular intervals, have enabled co-operation between the Dominion and the Provinces to overcome the rigidity of federalism. As recommended by the Royal Commission on Dominion-Provincial Relations, the Provinces agreed in 1941 to vacate the field of personal and corporation income taxes for the duration of the war and one year thereafter [4]) and to receive compensation calculated on the basis of their past receipts and special needs. This co-operation has existed in a greater measure in Australia through the Premiers' Conferences, wich meet al least twice a year and take joint decisions on important matters affecting federal-state relations. The Loan Council is another institution that encourages such co-operation. During the war a Co-ordinator General of Works was appointed to assist the Loan Council to review the loan programmes of different governments and to reduce them to bare necessities so that more funds may be avaiable for financing the war. In 1943 the Premiers' Conference decided to establish a National Works Coun-

4) In 1947 all provinces, except Ontario and Quebec, entered into fresh agreements with the Dominion Government for a further period of five years. Ontario and Quebec reintroduced corporation taxes but refrained from re-entering the field of personal income taxes. The new arrangements for the five years beginning 1952-53 are based on revised financial terms more favourable to the provinces. All provinces, with the exception of Quebec, have reached agreements with the Dominion Government on the basis of the new proposals.

cil to determine a post-war works policy on a joint basis. In return for the federalisation of the income tax the federal government also created a National Welfare Fund, to which annual contributions have been made from income tax revenue, for financing social services some of which were formerly provided by the state governments. The federal government now provides funds for invalid and old age pensions, widows' pensions, maternity allowances, child endowments, unemployment and sickness benefits, hospital benefits, tuberculosis benefits and rental rebates under the housing agreement. This has meant increased federal influence in the provision of social services. Through a Commonwealth-State agreement in 1942 the states agreed to vacate the entertainment tax field in return for compensation based on the previous year's revenue. In India the first conference of the Finance Ministers of the Union and the State Governments met in 1948. A second conference met in October, 1952, when the Union Finance Minister expressed the hope that such conferences would be able to meet periodically, perhaps annually, in future. He further added, that, "It is important that we should meet, compare notes and, if possible, agree periodically upon the objectives that we should have for the improvement of the economic conditions of the country... and act in accordance with the greatest common measure of agreement."

Legislative interpretation has also tended to increase the power of the federal government. Under the Constitution coinage was assigned to the federal government in the United States but the framers of the constitution could not foresee the use of legal-tender notes. The Supreme Court in 1884, in the case of *Juilliard v. Greenman,* decided that Congress has powers to provide a currency for the whole country including the issue of legal-tender notes, though it had already decided that such power existed in times of war. Similary, in *Scholey v. Rew,* the Supreme Court held in 1874 that a tax on succession to real estate was not a direct tax and could, therefore, be imposed 'without apportionment among the several states and without regard to any census or enumeration'. It was held to be in the nature of an excise upon the privilege of taking property through inheritance, Aviation has similarly been controlled by the federal government under the 'commerce clause' and treaty-making powers though the states regulate intra-state aviation. In Australia the High Court held all the four Acts concerning the income tax, passed by the Commonwealth Parliament in 1942, as valid under the defence power. [5]) Finance is one of the important

[5]) The Income Tax (Wartime Arrangement) Act was upheld on the defence power alone, the others without any resort to any special wartime powers.

sinews of war and the Commonwealth Government must have it to prosecute a war succesfully. The fiscal powers of the federal government are thus expanded in times of war but there is no complete going back to the old position even after the war. It is true that the federalisation of the income tax in Australia was "not an attempt by the caucus to carry out a political programme of unification but an attempt by the Treasury to grapple with a problem set by the Constitution". [6]) Mr. Menzies feared that the decision of the High Court meant an end of the federal era in Australia. These fears were unjustified as has been demonstrated by the rejection, by a popular referendum, of the constitutional amendment in 1944 which proposed to give wide powerds to the Commonwealth Parliament for post-war reconstruction.

In peace times the federal government has expansive sources of revenue whereas the state governments are burdened with expensive social services. With the changing conception of the duties and functions of the state the demand for public services has expanded. The state is expected to protect the people against hunger, disease and ignorance just as it protects them against agression and disorder. The state governments are eminently suited to provide these services but they do not have the fiscal capacity to finance them. The scope of federal grants, therefore, increases. These grants provide funds to the states to finance services which they are expected to perform. In their absence the states will have to resort to regressive taxation and may even have to abandon or starve certain essential and desirable services. The needs of the state governments are multiplied in times of depression. A systeem of grants also enables the federal government to follow the Principle of Public Finance for the country as a whole and thus achieve "economic balance" within the federation by spending more in poorer and backward areas. [7]) When the federal government thus passes funds to the state treasuries to be spent by them it imposes certain conditions to ensure that the funds are properly spent. Under the Social Security Act, 1935 the federal government in the United States placed vast sums at the disposal of the states. In 1902 the federal grants amounted to $ 3 millions, which by 1936 had increased to $ 2,266 millions. In 1947 they amounted to $ 1,202 millions and formed 13.2 per cent of the total revenue receipts of the states. Through a system of grants the federal government in the United States approves state schemes and in some cases this

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[6]) K. H. Bailey, 'The Uniform Tax Plan' in The Economic Record, December, 1944.

[7]) See the author's article on "The Theory of Federal Finance" in The Economic Journal, March 1953.

control went so far as to lay down the qualifications of persons employed for carrying out the works programmes during the depression. In Switzerland, in 1939, federal grants amounted to 231 million Swiss francs and formed 25 per cent of the revenues of the cantons. In the same year in Canada they amounted to $C 22 millions and formed 10 per cent of provincial revenues. The compensation for federalisation of the income tax in Canada amounted to $C 84.4 millions in 1942-43. In Australia also federal grants have considerably increased thereby enabling the federal government to enforce its own policy indirectly. It has regorously specified conditions while giving grants for the construction and maintenance of roads, housing, assistance of wheat industry and unemployment and other reliefs. The Commonwealth Parliament could not pass direct legislation on any of these matters. In 1939 the Commonwealth grants amounted to £A 15 millions and formed 12 per cent of the revenue of the states. By 1945-46 they amounted to £A 51.5 millions, including income tax and entertainment tax reimbursements amounting to £A 35.7 millions. The special grants paid on the recommendations of the Commonwealth Grants Commission to the states of South Australia, Western Australia and Tasmania have increased from £A 2.4 millions in 1934-35 to £A 10.5 millions in 1951-52. In 1946 the wartime income tax arrangements were made permanent and the payments to the states were raised to £A 40 millions in each of the financial years 1946-47 and 1947-48. It was decided that thereafter the aggregate grant will be £A 40 millions "increased in proportion to the increase in population and then further increased by half the percentage increase, if any, in average wages per person employed over the level in 1946-47." The state share in 1950-51 came to £A 75.3 millions. "It is remarkable how Commonwealth influence has developped with the growth of the financial authority, largely under pressure of circumstances rather than through pursuit of a conscious plan, and despite the frequent refusals of the public to enlarge its constitutinal powers." [8])

The above developments have introduced elasticity into the written constitutions which otherwise tend to be rigid. This indicates that good government and not rigid federalism is the end. Federalism has to adjust itself to the times and the above developments disclose the dynamic nature of this form of government. Sometimes the state governments tend to resist federal encroachments, while at other times they acquiesce as federal predominance is often brought about through the pressure of circumstances. The

8) R. L. Crivelli, 'The Euthenasia of the States' in the Australian Quarterly, June 1946.

state governments have come to realise that federal strength and state independence are not incompatible; both have to co-operate in order to build up a strong federation and provide essential services to the people. The problem of modern federalism is to find ways and means so that the indepedence of the states may be compatible with the unmistakable urge towards centralization of finance and functions. The result is that the old and rigid federalism of the past is giving way to co-operative federalism, where the federal and the state governments co-operate to provide good government to the people.

Federalism has been a very elastic form of government and has recently increased in importance, The new states of Indonesia and Pakistan have a federal type of government. The East African Federation comprising Ethiopia and Eritrea was inaugurated in September 1952. The Central African Federation brings into closer association Southern Rhodesia, Northern Rhodesia and Nyasaland, though the natives are opposed to it because they fear white domination. Sidgwick's prophecy that in the future the predominant form of government will be federal seems to be justified in view of the adaptable nature which federalism has displayed. An authoritative plublication, however, observes that, "It has been suggested that another major war might put an end to federal systems everywhere." [9]) We cannot agree to such a suggestion. It is rare that any nation forms a completely homogeneous group whose development takes place on fixed and previously chalked out lines; even homogeneous people have differences due to geographical or climatic diversities. Federalism affords full development to a nation even while these diversities are encouraged. "One of the most urgent problems in the world to-day is to preserve diversities either where they are worth preserving for themselves, or where they cannot be eradicated even if they are not desirable, and at the same time to introduce such a measure of unity as will prevent clashes and facilitate co-operation". [10]) Federalism achieves unity and yet permits multiplicity and diversity where they are needed. It is a golden means of achieving equilibrium between the opposing forces of diversity and unity. It achieves a unity rich in variety and allows full scope for the development of regional diversities. The fear of war and aggression also leads to the growth of federalism. Modern scientific developments have reduced distances and the world has been made smaller. On the other hand, there is an urge towards

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9) Senate Document No. 69, 78th Congress — Report of the Committee on "Inter-Governmental Fiscal Relations" — Major Conclusions and Recommendations. Treasury, Washington, D.C., 1943, Vol. 1, Chap. 1.

10) K. C. Wheare, Federal Government, Second edition, p. 260.

lager political units, so that the sinews of war can be located beyond the hitting range of the enemy. A small nation is to weak to protect its freedom and independence. It has to depend either on treaties with bigger powers or form a union of states under which the autonomy of the uniting states is guaranteed. The ever-mounting defence budget of modern states tends to extend the application of federalism to a world community of states. Federalism reduces state frontiers and spreads the cost of defence over a wider area. It is significant that Mr. (now sir) Winston Churchill proposed the Union of France and Great Britain to bolster up French morale when the aggressive forces of Hitler threatened to overrun that country. People have suggested a federation of European States. The theory of public finance also suggests that a world federation of states is desirable from the broader human point of view. It would be possible for such a state to impose heavier taxes on the richer people of industrialised and developed states and spend them on the poor people of backward areas thus increasing human welfare. It will also reduce considerably the astronomical expenditure on defence and make these funds available for social and developmental services. Even if a world federation of states cannot be achieved it is desirable to create federations of groups of independent states as it would then be possible to apply the Principle of Public Finance over a wider area, which will help to increase the social welfare of the world as a whole. [11])

11) As explained in the author's article mentioned earlier.

TENDANCES RECENTES DU FEDERALISME

PAR R. N. BHARGAVA

RESUME

Une caractéristique indéniable de notre époque est la tendance à la centralisation dans tous les Etats fédéraux. Cela est dû aux circonstances et a été favorisé par l'intégration et l'unification de la vie économique. D'ailleurs la stabilité politique et un niveau élevé de l'emploi peuvent être maintenus grâce à la coopération des gouvernements fédéraux et locaux. En outre différents objets considérés jusqu'ici comme d'intérêt local tendent à prendre une importance nationale. Aussi le champ d'action du gouvernement fédéral s'est-il accru. En même temps s'est produite une unification progressive en matière financière rendue possible et même nécessaire par le développement de l'assiette de l'impôt.

En temps normal, les fonctions réservées au gouvernement fédéral ne sont pas onéreuses. C'est pourquoi il jouit d'un pouvoir excessif de taxation, tandis que les gouvernements d'Etats ayant à exécuter des services onéreux manquent du pouvoir de lever des impôts adéquats. Ces services assurés par les Etats ont pris du développement, en particulier les services sociaux. Les gouvernements d'Etats sont particulièrement aptes à rendre ces services, mais ils manquent du pouvoir fiscal nécessaire pour les financer.

La suprématie de l'autorité fédérale a été consacrée par des amendements constitutionnels et aussi par interprétation législative. On en trouve des exemples dans presque tous les Etats fédéraux. La coopération entre autorités fédérales et autorités d'Etats a également tendance à accroître l'influence fédérale.

Ces modifications ont assoupli les constitutions écrites qui autrement sont plûtôt d'interprétation stricte. Elles ont également montré que l'objectif à atteindre est un bon gouvernement et non un fédéralisme rigide. Les gouvernements locaux en sont également venus à la conception que le lien fédéral et l'indépendance des Etats ne sont pas incompatibles; tous deux ont à coopérer afin d'édifier un Etat fédéral fort. Le problème du fédéralisme moderne est donc de trouver le moyen que l'indépendance des Etats soit comptatible avec la contrainte inévitable qui résulte de la centralisation financière et administrative. Nous assistons à la croissance d'un fédéralisme coopératif.

Le fédéralisme est le moyen par excellence de réaliser l'équilibre dans l'opposition de la diversité et l'unité. La crainte de la guerre et de l'agression favorise aussi le développement du fédéralisme.

La science des finances publiques indique à son tour qu'un Fédération mondiale d'Etats est souhaitable à un point de vue largement humain. Il serait possible pour un tel Etat d'appliquer les principes de la science financière dans un espace plus large (comme il est expliqué dans l'article de l'auteur: "The Theory of Federal Finance, dans The Economic Journal, mars 1953.) ce qui contribuerait au développement du bien-être social du monde en son ensemble.

ISRAELS NEW ECONOMIC POLICY((NEP): THE BACKGROUND

BY SAAKI ERETZ AHUVAH
Jerusalem

A. Introduction:

The New Economic Policy was announced by Prime Minister Mr. David Ben Gurion to the Second Knesseth (national Parliament) on 13th February 1952, close on four years after the re-establishment of the Hebrew State and about three years after open warfare was superseded by a series of negotiated Armistice agreements with the surrounding Arab States. Some of its most important measures, by their very nature, went into immediate effect.

Like most radical departures in national economic policy which were not preceeded by similarly far-reaching changes on the political front, NEP arose directly out of the economic predicament of the country and was conceived as a policy-instrument to cope with the growing anomalies in the national economy. Neither the contents of NEP nor yet its subsequent influence on the course of economic life, can be at all fully appreciated without a prior firm understanding of the matrix of economic conditions which gave birth to it.

Accordingly the first part of this essay is concerned with a fairly detailed analysis of the development of the Israel economy during the four years 1948/51. The second part will describe the cardinal features of NEP, and a final third part attempts to trace its impact on the national economy for about two years after its hopeful inauguration.

B. The Israel Economy 1948/51:

The first half of this part is devoted to an enumeration of the outstanding forces and data which governed the economic scene, followed by an analysis of their mutual interaction and interpenetration which determined the course of development of the national economy during the period under review.

1. *The Principal Ingredients*

Israels fundamental economic anomaly may be summed up in one sentence: it consists of the distorted relationship subsisting between the official price of the Israel Pound without (rate of exchange), and the price of Israel labour-power within (wages).

At the time of the proclamation of the Hebrew State in May 1948, the Jewish population of the country numbered about 650,000

people. At the end of 1951 it had grown to 1,404,000, a rate of increase of 116 %.

Official statistics on the supply of money to the public are available only beginning March 1949. During the two and three quarters years March 1949—December 1951 the money supply incresed from IL 114.4 million — IL 241.5 million, or by 111.1 % excluding time deposits, and from IL 119.8 million — IL 253.4 million, an increase of 111.5 %, inclusive of time deposits of up to twelve months.

There are three indicators of the development of money wages during the same time period:

1. A monthly index of employment and wage and salary payments in industry (1938/39 = 100) compiled by the Government Central Bureau of Statistics, which records an increase of wage and salary payments per employee from 598 in May 1948 to 948 in December 1951, an increase of 350 points or of 58 %.

2. A quarterly index of daily earnings per employee 1938/39 = 100, also compiled by the Central Bureau, which registers an increase from 543 points in April-June 1948 to 931 points for October-December 1951, i.e. by 388 points or 71 %.

3. According to two industrial wage sample inquiries undertaken respectively by the Mandatory Government and the Israel Government, the wages of daily paid adult male workers increased from IL 9.300 per week in March 1947 to IL 13.7000 per week in March 1949, an increase of IL 4.400 or of 47.3 %. Beginning with 1952 a new monthly series of wage rates in industry is being compiled by the Bureau of Statistics. Comparing the 1949 wage sample results for which full details are available with the new statistical series it transpires that in rather less than three years the wages of daily paid and piece-work paid workers in industry (both sexes, all ages) increased from IL 1.945 a day in March 1949 to IL 3.226 in January 1952, an increase of IL 1.281 or of 65.9 %. Assuming now, a) that half of the increase of wages of daily paid adult male workers between March 1947—March 1949 occured since the establishment of the State of Israel and b) that this increase is indicative of the movement of all other industrial wage rates during that time, than the wages of daily paid and piece-work paid workers in industry (both sexes, all ages) roughly doubled in the period May 1948—January 1952.

The following three tables present the relevant statistical data in tabular form:

Table I:

Jewish Population Growth of Israel, 1948-1951

Designation	1948 May-Dec.	1949	1950	1951	Total
Net Immigration *) .	105,082	234,922	160,160	166,859	667,023
Natural Increase . .	8,406	20,248	28,962	34,540	92,349
Total Population Growth (1 + 2) . .	113,488	255,170	189,122	201,399	759,372
Total Jewish Population, end of period, —					
a. Absolute No., May 1948 = 645,213 .	758,701	1,013,871	1,202,993	1,404,392	—
b. Index No. 645,213 = 100	118	157	186	218	

*) Excess of all arrivals over all departures.

To table 1. it should be noted that during the months of warfare preceeding and following the proclamation of the State an estimated 700,000 Arabs fled from the territories now under the jurisdiction of the State of Israel. It can and has therefore been claimed that hardly any change took place in the total human population of the country. Such a view however would grossly oversimplify and indeed falsify the real demograpic changes that occured and their momentous impact on the economy of the country. Both by background and training the Jewish immigrants were utterly unsuited to the kind of primitive husbandry at which most of the Arab refugees had eked out their meager existence. They were not encouraged either to continue economically where the others had left off, but instead Government, the Jewish Agency Colonization Dpt and other institutions set about to build up a new agriculture more closely patterned on the intensive and mechanized farming of the old Jewish settlements, at vast investment cost. Furthermore, a fair amount of abandoned Arab properties which passed into the hands of the Custodian of Enemy Property (a Government Dpt) were destroyed by warfare (buildings, workshops, factories) or through unavoidable neglect (plantations) in the rather chaotic conditions prevailing in 1948. Still, very considerable economic assets including 1,300,000 dunam of arable land, 140,000 dunam of built-up area with 50,000 more or less intact dwellings etc., passed into the hands of the State and greatly facilitated the task of mass immigration absorption.

About 50 % of the new Jewish immigrants came from Oriental

Table II:

Supply of Money to the Public, 1949-1951, IL.Millions

Period	Total Issued Currency banknotes and coins	Cash holding of Banks and Credit Cooperative Societies	Total Currency in Circulation (1.—2.)	Demand Deposits and other Credit Balances	Total Money Supply Excl. Time Deposits (3. + 4.)	Time Deposits up to 12 months	Total Money Supply Incl. of Time Deposits up to 12 months (5. + 6.)
	1.	2.	3.	4.	5.	6.	7.
1949							
March	36.7	3.9	32.9	81.5	114.4	5.4	119.8
June	41.5	3.3	38.2	87.6	125.8	5.8	131.6
September	46.5	3.0	43.5	92.7	136.3	6.3	142.6
December	50.7	7.5	43.3	96.9	140.2	6.9	147.0
1950							
March	55.7	3.6	52.1	107.5	159.6	7.4	167.0
June	57.2	4.1	53.1	116.0	169.1	9.2	178.3
September	70.6	5.4	65.2	119.9	185.1	9.2	194.3
December	74.9	10.1	64.8	125.0	189.8	11.2	201.0
1951							
March	82.1	6.2	75.9	137.1	213.0	11.8	224.8
June	86.9	6.2	80.8	144.7	225.4	11.1	236.0
September	96.4	5.7	90.7	150.2	240.8	11.4	252.3
December	101.8	10.9	91.0	150.5	241.5	12.0	253.4
Increase Dec. 1951 over March 1949							
Absolute No.	65.1	7.0	58.1	69.0	127.1	6.6	133.6
% of March 1949	177.4	179.5	176.6	84.7	111.1	122.2	111.5

Table III:

Indices of Nominal Wages in Industry, 1948-1951

1. *Monthly Index of Persons Employed, Wages and Salaries 1938/39 = 100*

Period	Persons Employed 1.	Wages & Salaries 2.	Wages & Salaries per Person Employed (2 ÷ 1 × 100) 3.	
			Absolute No.	Index
May 1948 . . .	128	766	598	100
December 1948 .	143	945	661	110
December 1949 .	175	1,291	738	123
December 1950 .	187	1,465	783	131
December 1951 .	188	1,783	948	158

2. *Quarterly Index of Daily Earnings per Employee, 1938/39 = 100*

April—June 1948	543	100	
Oct.—Dec. 1948	640	118	
Oct.—Dec. 1949	677	125	
Oct.—Dec. 1950	731	135	
Oct.—Dec. 1951	931	171	

countries, i.e. the Middle East and North Africa. Most of them had, prior to their immigration, probably not enjoyed a standard of life appreciable higher than that at which the displaced Arab population of Palestine had subsisted.

Israel still has an Arab population of 170,000-200,000 people. They have not undergone any remarkable demographic changes and were therefore omitted from this survey.

To table 2. it should be remarked that in September 1948 the then circulating Palestine Currency Board notes were exchanged at par for Israel bank-notes issued by the Issue Department of the Anglo-Palestine bank, by arrangement with Government. At the beginning of October 1948 when this operation may be deemed to have been completed, IL 28.3 million worth of the new notes had been put into circulation. Total deposits of banks and credit co-operative societies at the end of September 1948 are estimated at about IL 83 million of which about IL 7 million were time deposits. Issued currency plus demand deposits amounted therefore to IL 104.3 million. The corresponding figure for March 1949 is IL 118.2 million, i.e. columns 1. and 4. in table 2. It follows that during the half year September 1948—March 1949, the money supply, according to this definition, increased by IL 13.9 million or 13.3 %.

Particularly noteworthy in the development of the money

supply 1949—1951 is the disproportionately rapid increase in the issued currency, (+ 177.4%) against demand deposits (+ 84.7%).

In connection with table 3. it should be noted that during the round of wage negotiations at the beginning of the calendar year 1952, Histadruth (the Israel national federation of trade unions) pushed through general increases of basic wage rates of up to 15 %. These are not yet reflected in the indices of table 3. (unfortunately both these series were discontinued at the end of 1951). It may be assumed that the average daily wage of IL 3.226 for January 1952 mentioned in the text above, already includes most of the turn-of-the-year wage advances.

Throughout the whole of this period the official value of the Israel Pound remained unchanged, (apart from the slight adjustment from $ 3.00-IL 1 to $ 2.80-IL 1 in September 1949 in the wake of the Sterling devaluation).

By the end of 1951 average wages in Israel, at a very conservative estimate, had reached about IL 3.000 a day, (on the then flourishing black market for labour-power, skilled workers, particularly in the building trades but elsewhere too, easily made two and even three times as much). Average wages in Great Britain stood at about £ 1- a day. The official value of the currencies of both countries were at par at the rate of 2.8 American dollars for a Pound Sterling and an Israel Pound respectively. Multyplying wage rates by the official rate of exchange, the Israel worker earned about $ 9.00 a day against the British workers $ 3.00 a day. On the basis of that relationship the Israel worker could enjoy three times as many goods and services embodying the worlds labour then could his less fortunate compatriot in the British isles. Assuming, sanguinly, that average productivity of labour in Israel reached 50 % of average labour productivity in Britain, it probably was lower than that, and abstracting from the exigencies of varying terms of trade and comparative costs ratios, it follows that goods and services embodying Israel labour power were six times as dear on the worlds markets then were the products embodying British labour-power.

The question at once arises how could the country maintain itself under such conditions for any length of time? Theoretically it is just conceivable that through some phenomenal discovery and exploitation of natural resources such as gold, oil, uranium etc., the production of wealth in the region shot up so precipitately as to enable the country to double its (Jewish) population, to double nominal wage rates and yet to hold on to its old rate of exchange without getting into any serious dis-equilibrium in its foreign payments.

Table IV:

Israel's Balance of Payments 1949—1951, $ Million

Designation	1949		1950		1951		Total 1949/51	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
A. *Current Account*								
Import	—	245.6	—	287.3	—	343.3	—	876.2
Export	29.7	—	37.0	—	46.8	—	113.5	—
Transport & Insurance	3.4	3.6	2.5	5.3	4.8	7.0	10.7	15.9
Travel & Tourism	5.9	2.2	3.4	2.8	2.8	2.2	12.1	7.2
Rate of Interest, profits Dividends	—	0.8	—	1.4	—	0.8	—	3.0
Miscellaneous	4.2	11.2	2.8	24.9	1.7	28.3	8.7	64.4
Current Account, Total	43.1	263.5	45.6	321.7	56.0	381.6	145.0	966.7
B. *Capital Account*								
National Funds	68.6	—	52.9	—	32.2	—	153.7	—
Independence Loan	—	—	—	—	50.4	—	50.7	—
Reduction of Sterling Balances	23.8	—	41.7	—	31.6	—	97.1	—
Sale of Foreign Securities	—	—	—	—	9.5	—	9.5	—
Export-Imp. Bank Loans	18.5	—	46.5	—	36.1	—	101.1	—
U.S. Govt. Grants-in-Aid	—	—	—	—	14.0	—	14.0	—
Cash Transfers & Private Gifts	14.6	—	14.0	—	16.2	—	44.8	—
Private Capital Transfer (Goods)	38.6	—	51.2	—	71.4	—	161.2	—
Commercial Credit, Changes in Balances Abroad Miscellaneous	56.3	—	69.7	—	64.1	—	190.1	—
Capital Account, Total	220.4	—	276.1	—	325.6	—	822.1	—
Grand Total, A + B	263.5	263.5	321.7	321.7	381.6	381.6	966.8	966.8

The figures do not always add up completely because of rounding off of decimal points.

Unfortunately nothing of the sort happened. Israel avoided bankruptcy and economic collapse only by dint of a huge annual inflow of capital, — huge both in absolute amount and even more so as percentage of the national income. This is brought out in the following table which traces the balance of payments of the State for the three years for which official figures have been released:

During the three years 1949/51 the total import of goods and services reached $ 967 million against exports of $ 145 million only. Net capital import amounted accordingly to $ 822 million. The great majority of this money was channelled into the country through Government and the National Funds, i.e. Jewish Agency etc, to whom it was made available from abroad as gifts, grants, short-medium and long-terms loans, disinvestments etc. Only $ 161.2 million or just less than 20 % of this total capital import originated from private sources. Almost all of this was brought into the country in the form of goods. The cash transfer of money through official channels was almost non-existent. The main reason for this is that despite the vast import of capital, the price of the IL on the free market was appreciably, and progressively ever more, lower than the officially maintained rate of exchange of $ 2.8-IL 1. This is shown in the following table:

Table V:

The Free Rate of Exchange of the IL, 1949/51

Year	Dollar Rate per IL		Free r/e as Percentage of Official Rate of Exchange
	Absolute No.	Index	
1949	$ 2.02	100	67.3 %
1950	1.19	59	42.5
1951	0.65	32	23.2

Note: For 1949 we have taken the official rate of exchange to be $ 3.00-IL 1.

It has been alleged that unlike the immigration wave to Palestine from Central Europe in the 'thirties and contrary to the experience of the classical under-developed, mass-immigration areas of the past, the Jewish immigration of the post-State of Israel period was distinguished by its total lack of capital means. Now it is true that very little investment capital was brought into the country through official channels by the new immigrants and that many of them, probably the majority, from the D.P.camps of Europe and the ghettos of the Orient, arrived virtually destitute at the shores of the country. But there remains a sizeable minority who did command not inconsiderable capital means abroad. Usually there were no insuperable difficulties placed by their former countries of domicile in the way of transferring their capital in one

way or another to Israel. However at the ruling official rate of exchange they could not be induced to bring it into the country through official channels. Part of it indeed eventually did reach Israel, legally as personal effects and transfer in goods, and illegally in the form of gold coins, foreign currency, precious stones etc. But there is little doubt that most of it was salted away abroad to await better times for its repatriation to Israel.

In fact concurrently with the *legal influx* of *public capital* into the country there took place an *illegal efflux* of *private capital* out of the country. Estimates of the amount of "hot money" held by Israeli citizens abroad range up to the respectable sum of $ 100 million. In the very nature of the case there naturally is no accurate information available in this field. What is quite certain is that most of the capital found its illegal way abroad since 1948.

Something like the following picture emerges: every $ 100 million worth of publicly financed capital imports gave rise to inordinate, illicit and untaxed gains accruing to individuals in IL within the country of such a magnitide and on such a scale as to enable them to reconvert the equivalent of $ 10 million into foreign currency on the black market, according to the above quantitative relationship, and to smuggle it abroad as their private capital.

To highlight the quantitative significance of capital imports in the national economy it is instructive to compare capital imports with the net national income at factor cost.

The import surplus is expressed in $ and gives us the value which the free world market placed upon the goods and services financed with it at the time. Israels national income is expressed in IL according to the value placed by the local market upon domestically produced goods and services. The question arises, how, in the absence of a free rate of exchange operative and effective over all foreign exchange transactions, are we to relate these two magnitudes to one another so as not only to make them comparable in terms of a common denominator, that's easy enough, but also to make the results meaningful in terms of economic reality? The official rate of exchange to the extent that it overvalues the IL, it pari passu undervalues the capital import component. The free or black market rate of exchange in so far as it is a speculative rate and moreover a marginal one effective only over a limited segment of foreign exchange transactions, tends to undervalue the real worth of the IL and therefore to overvalue the capital import component. As against this, the existence per se of (considerable) net capital imports tends to give the IL a higher free equilibrium value then is warranted by its purchasing power parity position via foreign currencies, (just imagine what the free rate of exchange

of the IL would be in the absence of Israels massive capital imports). Yet there is no reason to assume that the element of overvaluation in the free IL due to missive capital imports is somehow just offset by the element of undervaluation due to its segmental, speculative and illegal character. There does not seem to be any foolproof, theoretically correct way out of this dilemma. We have therefore in a more or less arbitrary fashion chosen a rate of exchange which is the arithmetic mean of the official and the black market rates of exchange.

In Israel we like to play around with global figures of national income as is done in the Western World. But unlike Western countries the study and computation of macro-economic statistical quantities is still in its baby shoes here and all estimates are little more than informed guesses conveniently "rounded off" in accordance with immediate political exigencies. Thus, for 1951 no less then four estimates of the national income are known to this writer which range between IL 470-IL 610 million, a difference of IL 140 million or 30 % on the lower limit. In the above table we have quoted the official figures released by the Ministry of Finance but they should be taken with rather more than the usual pinch of salt.

Neither can we claim any great accuracy for the method of calculation employed. To mention only the most obvious point, the operative rate of exchange used offers a premium on the *extent* of overvaluation of the official IL by giving it a weighting of 50 % in the calculated rate of exchange, (imagine the official rate of exchange to be $ 20 — IL 1!)

With all these due reservations we think that the calculation does convey an approximate idea of the orders of magnitude involved. According to it capital imports equalled 36.8 % on an average of the net national income at factor cost during the three years 1949/51. Two alternatieve calculations which for lack of space are not detailed in the table and which are based on the official and black-market rates, yield magnitudes of roughly one fourth and two thirds respectively as the share of capital imports in relation to national income over the same time span, — they may be regarded as the possible floor and ceiling in between which somewhere the truth lies.

Underdeveloped countries have been defined as those whose per capita national income is not high enough to generate a volume of voluntary domestic savings adequate for the purpose of large-scale economic development. In other words the term applies to countries which are not sufficiently rich to pull themselves up economically speaking by their own boot-strings. The figure of $ 400 per capita per annum has widely been canvassed as the watershed between developed and under-developed economies.

Table VI:

Capital Import as Percentage of Net National Income, 1949/51

Year	National Income IL.mills	Capital Imports $ [1] Millions	Rate of Exchange $ rate per IL			According to Compounded Rate of Exchange	
			Official	Free [2]	Compounded (3 + 4 ÷ 2)	National Income in $ (1 × 5)	Capital Import as % of Nat. Inc. (2 as % of 6)
	1	2	3	4	5	6	7
1949	260	220.4	3.00	2.02	2.51	652.6	33.8
1950	340	276.1	2.80	1.19	1.99	676.6	40.8
1951	527	325.6	2.80	0.65	1.72	906.4 [3]	35.9
Total or Average:	1,127	822.1	2.87	1.29	2.07	2,235.6	36.8

[1] See Table IV above.

[2] See Table V above.

[3] This figure in particular is hardly meaningful in itself and is obtained only because of the completely unrealistic exchange rate during that year, i.e. 430 % of the free rate as against 235 % during 1950 and 148 % during 1949.

In this sense Israel is an under-developed country one moreover which has been subjected to the enormous strain of rapid mass immigration. It could not possibly have financed out of its own resources the investments required for the productive integration of that new population in the national economy. This was the avowed task of capital imports. To show qualitatively to what extent capital imports were utilized for this end we have to compare the volume of capital imports with the volume of net investments in the economy.

The note of warning sounded above concerning the accuracy of national income estimates applies with equal force to the figures of gross investments and net investments quoted here. In Israel only calculations of gross investments are made and the sum of net investments is obtained by deducting from gross investments a certain percentage on account of depreciation. Determination of that percentage is a function of the total depreciable n ational wealth of the country and its composition on one hand, and of total gross investments during any one year on the other hand. For the years 1950 and 1951 the depreciation of existing capital has officially been estimated as equal to 25 % and 26 % respectively of gross investments. For the purpose of our above calculation we have deducted 25 % uniformly for all three years to arrive from gross to net investments.

Table 7. shows that during 1949/51 national consumption exceeded national production by about $ 250 million. The dissaving was financed from capital imports only about 70 % of which were devoted to domestic new net capital creation. According to two alternative calculations based on the official and the free market rates of exchange, net investments equalled 100.5 % and 41.3 % respectively of the capital import during the three year period under review.

The rapid expansion of the money supply traced in table 2. was equalled and indeed outpaced by the net growth of the (Jewish) population of the country shown in table 1. The per capita supply of money remained therefore quite stationary. But the rates of growth of the population and the money supply were not matched by a corresponding expansion in real production. And just as the massive volume of capital imports was not sufficient to prevent the value of the IL from falling precipitately in the free markets, so neither did it prove adequate to neutralize completely the strong inflationary pressures generated in the economy, — this despite the considerable diversion of capital imports from productive investments to current consumption.

Table VII:

Capital Import Versus Net Investments, 1949-1951

Year	Gross Investment IL.millions [1]	Net Investment IL.millions	Capital Imports $ millions [2]	Compounded r/e $ rate per IL [3]	Net Investment $ millions (2 × 4)	Excess of Capital Imp. over Net Investment $ millions		Net Investment as % of Cap. Imp. (5 as % of 3)
						Absol.No. (3-5)	% of Cap. Imp. (6 as % of 3)	
	1	2	3	4	5	6	7	8
1949	72.5	54.4	220.4	2.51	136.5	83.9	38.1	61.9
1950	127.4	95.6	276.1	1.99	190.2	85.9	31.1	68.9
1951	188.1	141.1	325.6	1.72	242.7 [4]	82.9	25.5	74.5
Total or Average:	388.0	291.1	822.1	2.07	569.4	252.7	30.7	69.3

[1] Exclusive of durable consumption goods

[2] In accordance with table 6. column 2

[3] In accordance with table 6. colum 5

[4] See note [3] to table VI

We must now briefly consider the causes and development of inflation in Israel during the period under review.

The paramount twin-tasks of the State of Israel ever since its inception are: security and absorption. Security — against military aggression without, and absorption — of mass immigration in the national economy within. On these two issues the State of Israel stands and falls, physically as well as morally. To make available sufficient economic resources to these two crucial foundations of our national existence two special financial tools were forged, the (secret) Security Budget and the Development Budget.

Total State security expenditure was divided between the allocation to the Ministry of Defence in the Ordinary Budget and the Security Budget. The former was mainly concerned with the current up-keep of the armed forces. The latter may be regarded the army's capital account. The Security Budget was principally financed by the issue of Treasury Bills. These short-term financial obligations (91 days) are legal cover for the national currency and as such are held by the Issue Department. They were also taken up by banks and credit co-operative societies. The magnitude of successive (secret) Security Budgets may be gleaned from the amount of Treasury Bills issued.

Table VIII:

The Holding of Treasury Bills, 1948/51, IL.000's:

	End 1948	End 1949	End 1950	End 1951
By Banks	21,199	32,230	40,350	44,240
By Credit Cooperative Societies	—	—	2,486	2,030
By Issue Department .	5,000	4,740	17,070	20,410
Total:				
Absolute No.	26,199	36,970	59,906	66,680
Index	100	141	229	254
Increase:				
Absolute No.	—	10,771	22,936	6,774
In %	—	41.1 %	62.0 %	11.3 %

The issue of Treasury Bills had a double inflationary impact on the national economy: once, by financing Government deficits through the printing press, and secondly, by being regarded first line liquid assets by banks etc, and so becoming the basis for credit expansion.

The fundamental object of the Development Budget, as is

implied in the name, is to finance basic investments to facilitate the productive integration of new immigrants into the national economy. Like Keynes' World Bank, it has at times been looked upon as a trail blazer to open the way for private capital to follow.

The Development Budget too had a double inflationary impact on the economy.

Firstly, on the revenue side. There were three principal sources of revenue:

1. Capital imports, either directly such as the equipment financed by the Ex-Im bank loans, or indirectly, — the counterpart funds realized from the sale of goods and services financed with capital imports (albeit at the official rate of exchange of $ 2.80 — IL 1.)

2. Domestic loans, voluntary and compulsory, and other local sources of revenue earmarked for the Development Budget, (e.g. sale of Government property etc).

3. Land Bonds. These are medium-term financial obligations issued by the Treasury on the security of Government land holding. Land Bonds are also unlimited legal cover for the national currency and as such are held almost exclusively by the Issue Department.

Capital imports are a non-inflationary means of finance because the expenditure is off-set by a corresponding influx of (imported) goods and services against which no domestic money incomes were generated.

Domestic loans etc are non-inflationary because the expenditure is financed by a corresponding reduction of domestic incomes.

Land Bonds are inflationary because the (Development Budget) expenditure is financed by the expansion of the currency issue.

Secondly on the expenditure side. The Development Budget was by no means utilized exclusively for the finance of productive investments. A considerable amount of the total budget was expended annually on vast social-welfare, public-work schemes of very dubious productive value to the economy. These were primarily designed to provide some kind of employment out of the public purse for thousands of needy newcomers. In this respect the Development Budget fulfilled the function of a thinly disguised unemployment benefit scheme.

It is worth to expand a little on the basis for distinguithing between productive and unproductive Development Budget expenditure. Let us take public works which is mainly concerned with the construction of new roads and the enlargement or repair of existing ones. Now it can and indeed has many times been argued with great conviction, that the construction of a new road by, say,

opening up an agricultural district and making its products accessible to the great urban centres of the country, can be every bit as productive and as useful an investment to the national economy, as building a new factory or importing agricultural equipment. This view is unexceptionable. The same can be said, though to a lesser degree, of afforestation projects, which is another one of the big publicly financed schemes by which otherwise unmployed new immigrants are kept in work.

What this amounts to however is *not* that all public works are productive expenditure but rather that the final *physical object* of a given investment, i.e. erection of factory, construction of road etc, is not a relevant criterion for determining the productivity or otherwise of an investment.

The real distinction between productive and unproductive investments revolves primarily around two considerations: firstly, what is the *principal aim* of a given expenditure, — is it to create additional economic values or is it to create additional places of work? And secondly, this really flows from the above as a natural corollary, what is the productivity of labour employed in the given project?

It is a well-known and well-attested fact that the productivity of labour on make-work schemes is infinitesmally low even by Israeli standards. It could hardly be otherwise since both the Government (or other public authority) contractors who supervise the work and the workers themselves know full well that the principal object is to create labour-days and not economic values.

In 1951 the Jewish Agency was financing some afforestation work and became seriously concerned with the terribly low work performance. To better things an attempt was made to switch over from a time to a piece-work system of remuneration. Thereupon the workers struck; not because the rates had been fixed too high but because they objected to the principle as such. They put their case with disarming frankness saying: "We want to work on the Jewish Agensy's account and not on our own account"! Here the cat was being let out of the bag.

The unproductive character of public works in the above defined sense is by no means confined to the pre-NEP area alone — notwithstanding declarations and promises to the contrary. In the summer of 1953 plans were announced to supply 450,000 labour days for regional irrigation projects. Certainly a matter of the highest productive importance to the economy. But it was expressly provided that huge and costly imported earth-moving equipment would be put out of action in order to 'produce' more labour days for pick-axe armed unemployed. The public utility companies con-

cerned went out of their way to stress the patriotic character of their deeds! In the fall of 1953 instructions were issued to replace tractors by mules over wide areas of the Negev in order to make the ploughing season yield more employment.

There is of course nothing in publicly financed work projects as such to make for low productivity. One of the great engineering feats of the State of Israel was the construction of a first class asphalted road through the wilderness of the Negev from Karnub to Sdom. Despite the most difficult and trying conditions the work was pressed forward with great vigour with the help of an abundance of modern, highly mechanized equipment. Here the paramount aim was not to create labour-days but to cut a transport artery through the desert to open up the Dead Sea and its fabulous mineral recources for commercial exploitation.

In the following table we have attempted a classification of Development Budget revenue and expenditure into economically meaningfull categories to highligt its double inflationary impact on the national economy:

A glance suffices to make it clear that during financial year 1950/1951 the double inflationary impact of the Development Budget was at its highest. 63.2 % of all revenue originated in the issue of Land Bonds and 27 % of all expenditure was for social overheads as against only 35.8 % of productive investments. During the following year rapid improvement took place: only 29.9 % of revenue was covered by the issue of additional Land Bonds; while on the expenditure side the share of social overheads fell to 23 % and that of productive investments rose to over 54 % of the total.

The differences between total revenue and expenditure for the two years 1950/52 are cash deficits partly covered by the Ordinary Budget.

By the end of 1951 the Issue Department held just over IL 77 million of Land Bonds as cover for the national currency. From this however it does not follow that the note issue had increased by an equivalent amount, because Land Bonds had replaced foreign currency as legal backing for the note issue, which latter were used to finance fundamental capital imports. (Foreign exchange holdings by the Issue Department, inclusive of Palestine Currency Board notes, dropped from over IL 28 million in September 1948 to less than IL 3 million at the end of 1951).

The emergence of some net inflationary pressure in the economy in the post-1948 years was probably inevitable, despite the huge volume of capital imports, but the same can hardly be said of Governments ways of countering and fighting that inflationary pressure.

Table IX:

The Development Budget, Financial Years April 1949/March 1952, IL.m.

	1949/50		1950/51		1951/52		Total 1949/52	
	Abs. No.	%	Abs. No.	%	Abs. No.	%	Abs. No.	%
A. *Sources of Revenue*								
1. Non-Inflationary:								
a. Capital Import (Ex-Imp. Banks Loans; Special Receipts o/a of Foreign Loans Dept; Independence Loan)	19.2	53.5	22.6	36.8	43.1	63.6	84.9	51.4
b. Domestic Loans (Tavei Dollar)	—	—	—	—	4.9	7.2	4.9	3.0
2. Inflationary: (Land Bonds) .	16.7	46.5	38.8	63.2	19.8	29.2	75.3	45.6
Total A.	35.9	100.0	61.4	100.0	67.8	100.0	165.1	100.0
B. *Types of Expenditure*								
1. Productive Investments (Agriculture; Industry; Transport; Tourism)	18.0	51.2	24.1	35.8	40.0	54.4	82.1	46.7
2. Social Overhead Outlays (Local Authorities;								
Public Coy. Public works) . .	6.8	19.3	18.2	27.0	16.9	23.0	41.9	23.8
3. Housing	9.7	27.5	22.8	33.8	14.7	20.0	47.2	26.8
4. Miscellaneous	0.7	2.0	2.3	3.4	1.9	2.6	4.9	2.7
Total B.	35.2	100.0	67.4	100.0	73.5	100.0	176.1	100.0

During the first year of independance which was marked by State creation, administrative chaos (to which the withdrawing Mandatory power had deliberately reduced the country), desperate war-fare, and the sudden onset of mass immigration, there was not much choice save to let inflationary pressure work itself out in a rising price level. Hence the COL index rose from 328 points in April 1948, (291 in January of the same year), to 371 points in April 1949.

By that latter date the nascent State had definitely established itself, it had prevailed in war and had elected representative national institutions. For the first time Government could turn its full attention to economic affairs. It was decided to try and bottle up the growing inflationary pressures into the administrative caskets of price control and consumers rationing. This uprupt change of policy is brought out in table 10.

Between March 1949—June 1950 the cost of living (COL) index, in blatant disregard of all economic reality, was forced down by administrative decree from 370-317 points, or by 14 % — the lowest level ever reached in the State of Israel. The nominal money supply increased over the same time span by 48 %, so that the real money supply, i.e. money supply times price level, expanded by 72 %. During the second half of 1950 the COL index remained stationary while the money supply continued its strong upward trend. During 1951 the COL index slowly began climbing while the rate of increase of the nominal money supply slowed down considerably during the final quarter of the year. Hence the real money supply rose less than the nominal money supply and actually dropped at the end of the year.

It is difficult to-day to unravel the motives which prompted Government to embark upon this slippy path of violently suppressed inflation. Certainly it was not a decision arrived at after painstaking, rational appraisal of the economic situation. Judging from pronouncements of Cabinet ministers at the time and since, one of the decisive influences which weighed on their minds was that the British Governement had pursued a similar course of policy during the war and the years following it, which on the whole had been crowned by success.

It may therefore serve a pertinent purpose to show if but briefly, why faithful outward emulation of British experience did not vouchsafe similar results in Israel.

The British Government knew economically speaking what it was doing. As to the economic understanding of the Israel Government suffice it to say that its head proclaimed in 1949, — after a

Table X:

Price Level, Nominal and Real Supply of Money, 1948-1951

Period	Cost of Living Index		Nominal Money Supply		Real Money Supply	
	Aug. 1939 = 100	Index	IL.-Millions [1]	Index	IL.Millions (3 ÷ 2 × 100)	Index
	1.	2.	3.	4.	5.	6.
1948						
May	337	91	—	—	—	—
June	344	93	—	—	—	—
September	358	97	—	—	—	—
December	365	99	—	—	—	—
1949						
March	370	100	114.4	100	114.4	100
June	350	95	125.8	110	132.4	116
September	329	89	136.3	119	153.1	134
December	321	87	140.2	122	161.1	141
1950						
March	319	86	159.6	139	185.6	162
June	317	86	169.1	148	196.6	172
September	324	88	185.1	162	210.3	184
December		88	189.8	166	215.7	188
1951						
March	338	91	213.0	186	234.1	205
June	343	93	225.4	197	242.4	212
September	358	97	240.8	210	248.2	217
December	[2] 383(107)	103	241.5	211	234.5	205

[1] See Table II, column 5.

[2] In September 1951 the old index was discontinued and a new COL index Sept. 1951 = 100 was inaugurated. In Dec. 1951 the new index stood at 107. The equivalent of the old index was obtained by taking every one point in the new index to equal 3.58 points of the old index and then adding to it the Sept. '51 value of 358 points, i.e. 7 × 3.58 + 358 = 383. This is only a very approximate calculation; the two indexes are not comparable at all because they are based on different baskets with different weightings.

destructive war, at a period of armed, uneasy peace and in the throes of a vast mass immigration movement, that the avowed aim of his Governments policy was to facilitate mass immigration and at the same time to raise the standard of living of the community at large. This was Israels brave version of "Guns plus Butter" — plus the Ingathering of the Dispersions!

The British Civil Service is known for its impeccable integrity and can look back upon a tradition of centuries during which it evolved the techniques of national administration. The Israel Civil Service was a make-shift affair hastily drummed together from the ranks of political party stalwarths. Some former Mandatory and

Jewish Agency officials apart, it lacked all the prerequisites of professional training and background tradition which are so indispensable for an efficiently run national administration. And this motley officialdom was called upon, in addition to discharging its ordinary general duties, to execute an economic policy which relied increasingly upon supplanting the working of the price mechanism by a maze of direct administrative controls.

The British people are a homogeneous socio-political entity who have been knitted together by a century-long historical process of cultural growth and value integration. The predominantly immigrant population of Israel drawn from all the inhabited corners of the globe, from different cultures at different stages of social evolution was (and still is) conspicuous by its lack of common behaviour norms. Its variegated population did not even exemplify that minimum of common food habits on which an effective consumers rationing system could be built. (What happened is that a food-basket based on Western eating habits was selected, while the large and rapidly growing Jewish Oriental community was left to fend for itself as well as it could).

The British Pound Sterling was a world renowned currency backed up by a formidable gold reserve. It was the pivot of the Sterling Area encompassing many States and controlling vast economic resources. The trust of the people in the £ as a stable measure of values was never shaken. They looked upon rationing as a war-time measure (even if in the event it did not quite turn out like that) and were prepared to forgo current consumption in the firm knowledge of future recompense.

The newly created IL had no similar pool of implicit trust to fall back on nor did its writ hold sway over rich economic resources. As already shown above the IL was increasingly shorn of its foreign exchange backing. As the general economic crisis deepened and matters went from bad to worse, the soaring quotations of the $ and sovereign on the free (black) markets assumed great hold over the economic thinking and behaviour of the people, and made the precarious stability (even reduction!) of the official COL index stand out as all the more threadbare and absurd in the eyes of everyone. Many Israelis still had vived recollections in their minds of inflation in Europe and its consequences. This is particularly true of the new immigrants from Europe who had lived in Central and Eastern Europe until 1948/50. Many of the more advanced in years among them had passed two or three times through violent inflations within a generation. The extreme finesse and hypersophistication in financial matters displayed by these people, many of whom may never have had the benefit of even an elementary

school education, is something unbelievable and unique in the sociological make-up of Israel. As against this Governments clumsy attempts to outwit these people conjures up in ones mind the picture of Don Quixotte charging against the windmill.

The policy of suppressed inflation in war-time Britain had been accompanied by stringent and efficient measures at syphoning off the excessive purchasing power so called into being. Similar policies in Israel, i.e. high and progressive income taxation, voluntary loans etc, proved to be singularly ineffective, largely through Governments inability and/or unwillingness to be sufficiently ruthless in their application. The enormous and ever growing pool of excessive purchasing power which was thus allowed to accumulate in the hands of an already jittery public, literally speaking milled alround and run amok in the national economy (very much like a bull in a tea-shop), wreaking havoc and confusion, making to nought Governments well-intentioned physical economic development plans, and bringing the administrative control structure crashing round its ears.

It is possible in a very approximate fashion to indicate the magnitude of the excessive purchasing power called into being, by comparing quantitatively the deflationary forces and inflationary forces operative in the national economy. Ideally this is done by reference to three overall balances in the economy, viz: net capital import or export in the international balance of payments, surplus or deficit in the Government budget, and the ex ante relation between savings and investment. In the following table I have attempted to apply this schema to the Israel economy in a somewhat modified form made necessary by statistical exigencies.

Deflationary forces are defined as all those which result in the excess of supply of goods and services over effective demand on the market according to a given base level of prices. Two principal varieties can readily be distinguished: the existence of goods and services on the market against which no current domestic incomes were generated, i.e. capital imports, or though generated were taxed away, i.e. Government budget surplus, and reversely the withdrawal of purchasing power from the market which is not matched by a corresponding withdrawal of goods and services from the market, i.e. savings.

Similarly inflationary forces may be defined as all those which make for an excess of effective demand over the supply of goods and services on the market, according to a given base level of prices. Once more it is convenient to distinguish between two principal varieties: the generation of current domestic incomes on

Table XI:

The Magnitude of Israel's Inflationary Gap 1949-1951, IL millions

DESIGNATION	YEAR		
	1949	1950	1951
A. *Deflationary Forces:*			
1. Import Surplus [1]	73.5	98.6	116.3
2. Amortization Funds [2] . .	18.1	31.8	47.0
Total A . . .	91.6	130.4	163.3
B. *Inflationary Forces:*			
1. Gross Investments [3] . . .	72.5	127.4	188.1
2. (Secret) Security Budget [4]	10.8	22.9	6.8
3. Maintenance of New Immigrants	10.0	12.0 [5]	6.0 [5]
Total B . . .	91.6	130.4	163.3
C. The Inflationary Gap, B minus A	1.7	31.9	37.6
D. The Inflationary Gap, as % of National Income [6]	0.6	9.4	7.1

[1] As per table 4.
[2] Assumed to be equal to current depreciation of capital, i.e. 25 % of gross investments as per table 7.
[3] As per table 7.
[4] Assumed to be equal to growth in value of outstanding Treasury Bills, as per table 8.
[5] Informed guess.
[6] National Income as per table 6.

the demand side which is not matched by a corresponding expansion of goods and services on the supply side, i.e. investments and in a related sense Government budget deficits, and the reduction of goods and services on the supply side unaccompanied by a parallel reduction of current domestic incomes on the demand side, i.e. net capital exports.

I dare say of all the twenty-two tables in this essay the above one is the most hazy and conjectural of them all — and this means something bearing in mind the express and farreaching reservations made in connection with many of the others.

On the side of the deflationary forces it is fairly certain that coys did not in fact set aside amortization funds equal to the current depreciation of their capital. On the other hand there are certain other deflationary influences not accounted for elsewhere which may be assumed to balance off against deficient provisions for capital depreciation, e.g. incidental private savings, a few million IL every year of Government sponsored, popular loans etc. The item amortization funds should therefore be looked upon

as in the nature of a generic heading for all such residual deflationary influences.

On the side of the inflationary forces, item 3. is the (estimated) expenditure of the Jewish Agency Absorption Department for the first stop-gap, unrequited provision of immigrants with food, shelter (current cost) and clothing pending their absorption in the country, — which in this restricted sense means no more than that their current up-keep ceases to be a financial obligation of the Jewish Agency.

Of the Government budget deficits we have included on the inflationary side only the (secret) Security Budget according to the growth of Treasury Bills. The Ordinary Budget was always formally balanced and in so far as it did in fact incur deficits this only meant, in the final analysis, that part of the net capital import currently consumed was transferred from private consumption to public consumption. The Development Budget was excluded to prevent double counting. All Development Budget disbursements are by definition included under gross investments, either as investments made directly by public authorities, or else as loans for investments given to private companies etc. A good case can be made out for inclusion on the inflationary side of the balance sheet, of the deficits of Local Authorities on current account (there were such). This could not be done for lack of information.

By comparing the quantitative magnitudes of inflationary and deflationary forces and deducting the latter from the former, we arrive at the net inflationary gap, or the annual generation of excessive purchasing power in the economy, which increased from year to year and reached the highest absolute level in 1951. This was mainly due to the huge volume of (largely speculative) investments during that year coming in the wake of the well-nigh complete break-down of public confidence in the IL and the resulting headlong flight into real values. This development was only partly offset by the considerable increase of net capital imports during 1951. However at 9.4 % of the national income the *relative* size of the volume of excessive purchasing power attained to its highest level during 1950. This may be ascribed on the one hand to the policy of administrative price cuts which was then in full swing and which kept the official valuation of the national income low, and on the other hand to the precipitate increase of the money supply during that year which in conjunction with the falling COL index resulted in the crystallisation of a disproportionately big amount of excessive purchasing power.

At this point two further considerations have to be introduced. Firstly, the growth in excessive purchasing power was cumulative

so that the economy, say, in 1951 was not only encumbered by the inflationary pressure generated during that year but also by the inflationary legacy of the two preceeding years. Secondly, the slow but persistent rise in the official level of prices beginning with the last quarter of 1950 tended increasingly to neutralize part of the excessive purchasing power of former years. Thus for example during the two years 1950 and 1951 the annual average level of the COL index rose by 9.3 % so that the net inflationary pressure of IL 31.9 million created during 1950 equalled only about IL 29.0 million at the price level obtaining during 1951.

However, here we start getting into deep and dangerous waters. For if we pursue this line of thought to its logical conclusion we might as well include black market prices in our calculation, and then we would find, not surprisingly, that there was no excessive purchasing power left at all, for in the final analysis all incomes are either spent, in official *and* black markets, or they are not spent, i.e. saved. But to take this final step would be to make nonsense of the above arithmetical exercise and of the whole concept of excess purchasing power which after all is expressly designed to analyse the *economic antecedents* responsible for the crystallization of black markets and/or the distorted distribution of productive resources in the economy.

A good example of the kind of theoretical difficulties one gets involved are the so-called Imports without Payment. This phenomenon will be more fully dealt with below, (please see page 295); in the present context we only have to bear in mind that these are imports which are legally transacted at a much higher than the IL 2.800-$ 1.00 rate of exchange. Now insofar as this took place, we would be justified and indeed required, to calculate these Imports without Payment at their higher real rate of exchange, which would correspondingly increase the IL value of imports and hence the IL value of the import surplus, which in turn would increase the quantitative magnitude of the deflationary forces in the economy and therefore pari passu *decrease* the net inflationary gap in the economy. However as we shall see below, the great majority of these Imports without Payment were really just an international variant of the local black market and so far from diminishing excessive purchasing power they were in fact the *end result* of the existence of such excessive purchasing power.

What we are really left with are two kinds of purchasing power, which have to be distinguished on the basis of their respective impact on the distribution of resources in the economy. Thus „legitimate" purchasing power is such as is in accordance with a given "normal" or "optimum" distribution of productive factors in contra-

distinction to "excessive" purchasing power which causes distortions in that pattern of distribution. It will be objected that this formulation succeeds only in removing the whole discussion one step back while leaving the problem as such substantially unresolved, for now we are required to define the meaning of "normal" or "optimum" and "distorted" as applying to the distribution of resources in the economy, in order to arrive at a distinction between "legitimate" and "excessive" purchasing power. To this the perhaps adequate reply is that in the modern State the Government as agent of national economic planning is the final arbitor of the "normality" or otherwise of a given factor distribution. If for instance Government allocates an official ration of three eggs per week per capita, and resolves to channel all available building resources into the construction of schools, hospitals and new immigrant dwellings, then the production (and sale on the black market) of eggs above that minimum quota and the construction (and sale on the free market) of luxury flats, is a distortion of that planned distribution of productive factors, and the pressure of effective demand on the market which gave rise to this shift of resources away from the "norm" or "optima" aspired to by Government, qualifies for the title of excessive purchasing power. *)

2. *The Resulting Brew*

We have now gathered together all the principal strands of the forces which were active in the Israel economy during the period under review. I imagine that any competent, professional economist who were given the above data as his terms of reference could by the application of abstract economic analysis alone, foretell with tolerable accuracy the general trend of actual development to come.

Elementary economic equilibrium theory, what is sometimes alluded to as the grammer of economics, teaches us that one of the principal functions of the price mechanism is to equate monetary demand to available supply, both on the output side of goods and services and on the input side of productive factors and their combination in the processes of production. The resulting structure of prices acts as guide to the optimum allocation of resources in society. Taking this theorem as our point of departure, two glaring distortions in the price mechanism at once spring to the eye:

1. The internal price structure, which was administratively

*) Frankly, I don"t quite know myself what to make of this discussion of excessive purchasing power. On theoretical grounds it does not strike me as very satisfactory. May be someone better qualified than I am can be induced to make a rejoinder to place the whole matter into a clearer light and on to a better, more definitive theoretical footing).

manipulated in such a way that effective monetary demand far and away outstripped supplies on the domestic market. The experience of 1949/50 highlights this development. Between March 1949-June 1950 the official COL index was forced down by 14 % while money wages rose from 7 %—12 % in accordance with indices 1. and 2. in table 3., resulting in what for want of a better term may be called a "statistical" increase of real wages of 24 %—30 %. During the same time the nominal money supply expanded by 48 %, the real money supply by 72 % and the (Jewish) population of the country increased by. 58 %, (end 1948 and 1950 compared). In 1950 the per capita import surplus dropped by 7.4 % (IL 70.594 in 1950 against IL 76.203 in 1949), and consumption goods as percentage of total imports dropped by 19.1 % (from 32.4 % in 1949 to 26.2 % in 1950); national production rose but little and the share falling to the investment sector, albeit often luxury, public works and other forms of unproductive investments, was on the increase.

2. The external price relationship, characterised by an officially maintained, grossly overvalued IL which with each new immigrant and every additional inflationary pound injected into the arteries of the national economy, became more divorced from the underlying economic reality of the country. This we defined above as Israels fundamental economic problem and we had already occasion to comment on its arithmetics. Foreign exchange, particularly regarding the country's autonomous ability to earn it (i.e. by the export of its goods and services) in relation to its needs, is far and away Israels *scarcest* resource; yet by fixing a completely unrealistic official rate of exchange maintained by exchange control, we turned it into the *cheapest* resource in the economy. On the other hand, owing to the vast influx of mass immigration, human labour-power became Israels most *abundant* factor of production; yet by ruthless monopolistic control over its supply base it was boosted into the country's most *expensive* factor of production.

In the following we will attempt in all brevity to trace the inevitable consequences of this double distortion of the price mechanism on the national economy, considering first the one and then the other. This, admittedly, is a somewhat artificial procedure, for modern economies are organic entities in which all parts are interdependent and changes in any one of them react upon all the other in a dialectical interplay. Some of the economic developments were no doubt the immediate outcome of both distortions impinging upon a common situation. Thus the anomalic growth of industry in Israel, which we shall presently come to consider, was determined by the co-existence of cheap, imported raw materials (unrealistic exchange rate) with a universal sellers market at home (unrealistic price

level). If we have none the less adopted this procedure of considering the two distortions in isolation it is for reasons of methodological expediency alone, to facilitate the analytical task of unravelling the various intertwining strands of development.

Price control and rationing, in the absence of effective measures for sterilising the excessive purchasing power so called into being, set up a continuous and mounting pressure in the same direction which fed on its own momentum: every additional act of consumers rationing and price control left in its wake an *increased* volume of excess purchasing power to share out a *contracted* field of as yet unrationed goods and services, thus provoking the further extension of the system. By the summer of 1950, with the introduction of consumers rationing in clothing and shoe-wear, the rationing coupon had established its sovereignity over well-nigh all necessary and semi-necessary goods and services, with its attendant system of administrative allocation of production resources in scarce supply.

The evergrowing volume of excessive purchasing power set up an enormous pressure in the economy which could not possibly be contained and progressively escaped through four alternative valves (a fifth one will be noted when we come to discuss the second big distortion in the price mechanism):

1. Wherever and to the extent that the system of egalitarian administrative rationing could be enforced it led to economic disincentives to work and effort which meant lowering production. This hit at the foundations of the national economy.

2. But in fact it increasingly became quite impossible to maintain this physical control and allocation system in the face of mounting pressure of frustrated purchasing power which tunneled its way around the law and gave birth to black markets. In time the black market became Israels number one industry and threatened to devour the control system which had begotten it. The appearance and virtually unpunished flourishing of the black market brought the law into contempt and led to a grave weakening of the moral texture and foundations of society. Since 1949 there has been operative in Israel a strong "social Gresham's law" which has driven under good elements and left law-defying, criminal elements "circulating" in positions of economic affluence and social prestige.

3. Alongside the official white and the unofficial grey-black markets, there grew up a non-official market of uncontrolled, and for all intents un-taxed or untaxable, goods and services having mainly a luxury character. The raw material base of this market was fed from the black market and its international variant — Im ports without Payment (see below). It gave rise to the increasing diversion of economic resources ,-materials, labour as well as capital,

which in quest of greater economic reward were flowing from the essential, controlled, low-reward sector of the economy, to the non-essential, de-controlled, high-reward sector of the economy.

4. The local excessive purchasing power spilled over not only to domestic black markets and free (luxury) markets, but also to the international currency markets. This feature must be considered in conjunction with the black market of which it constituted a kind of international variant. One of the incidental results of the black market was to taken little amounts of excessive purchasing power out of the pockets of a great mass of small-time consumers and to concentrate huge amounts of it into the hands of a few big-time professional operators, — just as if innumerable little rivulets had been emptied into one great pool. And it was principally the ruthless manipulation of this enormous concentration of purchasing power in the latter hands for purely speculative purposes which caused such grievous damage to the national economy. Now part of that money was converted illegally into foreign exchange and the proceeds were used to finance the so-called Import without Payment. This was a system by which import licenses were granted without a Government allocation of foreign exchange. The effective rate of exchange on these imports was determined by the prices obtained from selling the imported goods on the free domestic market, and they came to several IL for each $. Part of the Import without Payment represented no doubt bona fide capital transfers by new immigrants and private investors; but it can safely be assumed that the greater part of it was financed out of the exorbitant profits realized by black market operators in Israel itself. The total magnitude of this type of imports was continuously on the increase, rising from $ 38.6 million in 1949 to $ 51.2 million in 1950 and $ 71.3 million in 1951. The speculative supply of IL in the worlds money centres, encouraged by the mechanism of Import without Payment, was one of the chief causes for the continuous depreciation of the free exchange value of the IL.

The alternative character or substitutability of these four valves should carefully be noticed. To the extent, for instance, that the pressure of excessive purchasing power escaped through the black market, it pari passu weakened the pressure on the remaining valves and therefore caused less economic dis-incentives, gave rise to smaller capital flight, (this is only partially true because a portion of that 'hot money' was used in one way or another to supply the local black market), and led to an ultimately smaller distortion in the production structure of the country, then would have been the case in its absence. It may be morally repugnant to state so but it is nonetheless true, that from a strictly economic point of view the

black market fulfilled an important positive function in the national economy.

The impact of the official, frozen unrealistic rate of exchange of the IL upon the course and development of the national economy, is a vast subject that cannot adequately be dealt with in the present context. All that is attempted here is to pick out some of the more obvious and most outstanding of the consequences. These we have grouped together under nine headings.

Throughout this discussion the following four facts should not be lost sight of:

a. The magnitude in absolute terms and as percentage of the national income of the total import of goods and services in general, and of the capital import in particular, during the period under review; — see table 4. above.

b. The great and growing divergence of the free market value of the IL from the officially maintened rate of exchange at which most of the imports and exports of the country were transacted; — see table 5. above.

c. The continuous increase of nominal wage rates during the same time; — see table 3. and adjoining text above.

d. The forced pace of economic development which the country experienced during the years 1949/51 under the impact of mass immigration and massive capital imports.

1. Balance of Payments, — the distorted existing price relationship of 350 prutah for a $ (350/1000 of a IL) and IL 3 for a days work at a conservative average, given the average low productivity of domestic labour, set up an enormous pressure of effective demand for imported goods and services. By the same token it erected a correspondingly enormous barrier to Israel exports which priced themselves out of all competitive markets. The result was that exports as percentage of imports in the balance of payments of the State declined, from 16.4 % in 1949, to 14.2 % in 1950 and reached 14.7 % in 1951, — see table 4. above.

2. Suppressed Inflation, — the effective demand for imports at the distorted price relationship could have been fully met only, perhaps, with the combined resources of the American Treasury. Failing a farreaching adjustment of money wage and/or foreign exchange rates, and being unwilling to let domestic prices spiral upwards, Government was forced to clamp down price controls and rationing.

3. Wasteful Consumption, — two very important basic import goods were not subjected to price control or rationing, one bread (i.e. imported wheat) for reasons of social equity and the other, fuel (i.e. imported oil) for reasons of administrative expediency.

Instead they were supplied on the local market at token prices in unlimited quantities. This is what we alluded to above as the fifth valve through which the pressure of excess purchasing power was allowed to escape. It obviously resulted in grossly wasteful consumption. Increasing quantities of bread were diverted to feed livestock — particularly chicken, and carp in fish-hatcheries. It also became the basis for a flourishing smuggling trade with neighbouring Arab countries. Even to-day it is officially, conservatively estimated that 15 % of all bread is used for animal consumption which comes to about $ 4 million worth of annual wheat and flour imports into the country. Less obviously but structurally much more significantly, the token prices of imported fuel-oil encouraged development and investments in all such branches of the economy which were based on an excessive use of imported fuels, e.g. irrigated agriculture, including irrigation net-works where water has to be pumped over distances of hundreds of km, and up elevations of several hundred meters, industry, transport, illuminations etc. (Virtually all electricity in Israel is generated in steam-power plants operated by burning imported fuel.) During the three years1949/51 the value of imported fuel and grains (other than animal feed), amounted to $ 141.6 million; this compares with total visible exports during the same time of $ 113.5 million.

4. Retarded Production, — at the prevailing price relationship between foreign labour-power (i.e. the official rate of exchange) and domestic labour-power, practically all imported goods, with the possible exception of citrus fruit and stone quarry products, were cheaper than the corresponding domestic product, — and their quality were invariably better. The same applies even to certain services. At the same time massive investments and sustained efforts were made to develop new lines of production at home and expand existing domestic output. The price and quality differences were such that ordinary tariffs availed little. The contradiction was resolved by foreign exchange allocation policy. Since there was not enough foreign exchange available to meet all the inflated demand for imports, an annual priority list was evolved. Not unnaturally highest priority was accorded to the most essential needs of food, fuel, industrial raw materials etc. which figured prominently in the daily consumption pattern of the population and had highly inelastic demand functions. As a result local (particularly private) investment was pushed into those lines of production where it encountered least competition from officially financed imports, i.e. into non-essentials with very elastic demand functions.

5. Agricultural Development, — the above tendency exemplified itself in agriculture in the rapid expansion of vegetable, fruit and

dairy production while the basic staple foods of the population such as wheat, fats, sugar etc. were almost exclusively imported. Livestock production was further encouraged by the almost complete reliance on imported (and therefore cheap) feedstuffs on the one hand and the existing inflated demand on the other hand.

6. Industrial Development, — Israel witnessed a rapid expansion of industry, particularly consumers industry, during the period under review. The type and direction of industrial investment was determined by a framework of economic reference which was dominated by three salient facts:

a. The availability of foreign exchange to finance capital equipment, raw material imports, spare parts etc.

b. The ultra-cheapness in terms of IL of that foreign exchange.

c. The existence of a universal sellers market at home.

In a sample inquiry on the utilization of industrial equipment financed with Ex-Im bank funds during 1950/51, it was found that every $ of new industrial plant installed required on an annual average $ 3 worth of raw material imports to keep it in full production. In the chocolate industry this ratio came as high as 1 : 7.

7. Autarchy, — the existing utterly distorted price structure prevented exports from contributing seriously to the receipts side of the States balance of payments, despite export premiums and other encouragement devices. Hence in an attempt to reduce the deficit in the country's autonomous balance of payments, frantic efforts were made to displace imports by local production. This in itself may not be a bad thing if done judiciously but in Israel it was attempted quite indiscriminately with no reference to comparative cost advantages which in any case could hardly have been ascertained since all values had deliberately been stood on the head. A noted English economist is reported to have commented cheerfully after having been shown round the vast structures of a steeltown going up south of Acre: "Well, now I can go back to Glasgow to plant orange groves!" This may be sums up adequately most of the autarchic developments in agriculture and industry during the time.

8. Speculation, — foreign exchange increasingly became the single most formidable and concentrated fount of wealth in the national economy. The behaviour of 'enlightened self-interest' became ever more divorced from the discharge of productive functions, and instead clustered around foreign exchange, like a bee hive around a pot of honey. The profits that could be netted from shady speculative manipulations in foreign exchange were out of all proportion to the legitimate gains of productive pursuits. A whole class of people grew fat on illegal foreign exchange dealings which in-

creasingly were looked upon by the law itself as purely technical transgressions. If a man was allocated say $ 50,000 and then managed to get his imports lost in the maze of administrative controls, he had made his fortune for life, i.e. he could, at a conservative estimate of black-market prices, sell for about IL 125,000 what he himself had purchased for about IL 17,850, i.e. $ 50,000 at the official rate of exchange of $ 2.8-IL. If he managed but to spirit away a small part of his imports into the black market, a thing increasingly considered to be the norm and form, he could secure for himself a very comfortable living.

9. Input Factor Combination, — practically all physical capital equipment in Israel, whether for industry, agriculture, transport, power generation etc., has to be imported from abroad. Within an operative price structure which placed a value of 350/1000 of a IL on a $ and about IL 3.000 for a days work, given the productivity of domestic labour power, an irresistable pressure was unleashed on all manufacturers and producers of goods and services in Israel, irrespective whether private, cooperative or public, to seek continuously the substitution of domesticc labour-power by up-to-date, labour-saving, ultra-modern imported capital equipment, in all the processes of production. This tendency was matched by a rapid and continuous influx of new immigrant labour-power into the country. If it had been possible fully to consummate this drive for investment intensity, — towards what Marx called the higher "organic composition" of capital, it would have resulted in a level of per capita mechanization of the Israel economy comparable to that of America, — to state this is enough to show up the patent absurdity of it. Even if the foreign exchange resources at the disposal of Israel had been ten times larger and even assuming that all of it had been expended exclusively upon the acquisition of capital equipment abroad, it would still not have been possible to absorb productively in the national economy *all* the available labour-power at that rate of input combination which was dictated by the existing price relationship between imported and domestic labour-power, (assuming furthermore the Oriental new immigrant labour to be at all technically qualified to operate such equipment). But in fact the foreign exchange resources for the acquisition of capital equipment were severelyy circumscribed. The inevitable result was the growth in Israel of a woe-fully lop-sided economy in which a small but superbly mechanized agriculture, industry, transport etc, co-existed at the side of a huge pool of immigrant labour for which no labour-saving equipment was available to be 'mixed' with, and which in the absence of that capital equipment, given the inflexible national wage-rates maintained by Histadruth on one hand, and

the low marginal productivity of hand-labour on the other hand, could not be employed according to the maxims of economie profitability. They were either kept alive in complete idleness in vast camps or later on, put to work on social-welfare, public-works schemes at extremely low productivity and of extremely doubtful productive value, in both cases causing an enormous annual drain on the public purse.

We can now attempt a final sum-up. The double administrative intervention in the price mechanism gave rise to a double distortion in the existing price structure, which in turn distorted the pattern of demand and the structure of supply. The most wasteful distortion on the demand side was the provision at token prices of unlimited quantities of unrationed goods of which wheat and fuel are the outstanding examples. The most grievous distortion on the supply side was the input combination between imported capital equipment and domestic labour-power in the processes of production.

The juxtaposition of rampant inflation and wholesale, administratively decreed reductions in the price level, of pegged exchange rates at the side of soaring money incomes, twisted the operative price structure into such a phantastic shape until it bore no more resemblance to the underlying economic reality of the country, and could not but give completely cockeyed advice in terms of resource allocation to all those who turned to it for guidance. Wherever the price mechanism was allowed to continue as the functioning terms of reference in the economy, the distorted advice it gave led to distorted investment decisions. And where, as increasingly happened, the price mechanism was dismantled, its functions were usurped by physical allocation schemes operated by remote Government officials which became the fertile spawning grounds for pressure groups, favouritism, underhand deals, shady agreements, bribery and corruption.

It is possible to divine between three distinct levels of economic reality which existed in the Israel economy of that time. At the bottom was the objective economic reality of the country defined by the abundance of local labour power and the scarcity of command over foreign labour-power (i.e. foreign exchange). Upon that foundation was erected a complicated and costly physical control and administration structure whose primary task was to prevent the underlying objective economic reality of the country from finding expression in a corresponding price relationship. Instead of which a second "subjective economic reality" was created in the form of a distorted price structure which became the operative terms of reference for the economic behaviour of the citizens of the

country. And upon that structure again there was built a third and final level of economic reality taking the form of yet another administrative hierarchy which was concerned to counteract and undo the disastrous influence of the distorted price structure upon the economic behaviour of the people. While the administratively-maintained distorted price structure of the second-tier economic reality commanded people to substitute mechanical equipment for domestic labour-power, to enlarge imports, reduce local output and stop exports, the administrative direction of economic resources of the third level economic reality bid them to do the opposite, i.e. "create" new work places, restrict imports, expand exports and manufacture steel or grow sugar, flax, cotton, virginia tobacco etc, etc — even though the prices of the domestic products were several times higher and their quality many degrees lower then the corresponding imported goods.

Such was the nature of the Israel economy at the beginning of 1952 on the eve of the New Economic Policy.

C. *The New Economic Policy (NEP)*

The twenty odd policy measures which comprise what eventually became known as the New Economic Policy, are very far from being an organic, connected economic programme of action or re-orientation. They are rather a heterogenous assortment of ad hoc reforms which somehow or other were all subsumed under the same umbrella. Only two of them are at all of a fundamental nature and merit elucidation in the present context: the first concerns exchange rate adjustments and the second budgetary policy.

Under a regime of exchange control such as obtains in Israel, the Government and its designated agencies enjoy a legal monopoly over the sale and purchase of foreign currency. Hitherto there had been one legal rate of exchange for all foreign exchange transactions fixed by Government at 2.80 American dollars for one Israel Pound. Now two official rates of exchange were instituted for the purchase of foreign currency and three for its sale:

The 'A' rate of exchange equal to the former unitary exchange rate)	1 IL = $ 2.80
The 'B' rate of exchange	1 IL = $ 1.40
The 'C' rate of exchange	1 IL = $ 1.00

On the sales side of foreign currency (i.e. by the Israel treasury), the rate of exchange was determined by the type of import to be financed with the money, according to considerations of social equity, i.e. the more essential the goods and services in question to be imported the lower the applicable rate of exchange and vice versa.

Thus originally imports of bread grains, sugar, fats etc were financed at the 'A' rate, coffee, tea, industrial raw materials came under the 'B' rate, while the highest 'C' rate was reserved for capital goods imports, foreign travel, insurance premiums etc.

On the purchase side of foreign exchange the guiding line was the source of the foreign exchange, according to financial expediency, i.e. the more "inelastic", if we may call it that way, a given source of foreign exchange supply the lower the rate of exchange and vice versa. The former unitary and now lowest 'A' rate of exchange was altogether abolished presumably because Government did not think that anybody would be willing to give up 2.80 American dollars in exchange for one IL. The foreign exchange income of the National Institutions (Jewish Agency etc) was exchanged at the 'B' rate which also applied to diplomatic representations etc. The 'C' rate was offered by way of a special incentive to private, foreign investors, and to Israeli citizens in receipt of financial support, dividends, royalties, insurance policies and other incomes from abroad to induce them to sell their foreign currency to the Government.

A special scheme was announced for the sale of foreign exchange arising from exports. Export proceeds were divided into two parts: the value of the import content in the export, and the local net value added. Foreign currency earnings equal to the import content of the export (say the value of raw cotton or, imported, high-count yarns in textile export) were sold back to Government at that rate of exchange at which the original imports had been bought, while the net value added was entitled to the highest IL-$ rate. It was expressly provided however that where the local net value added is very high, as in citrus exports for instance, all the foreign exchange proceeds would be sold at the 'B' rate — apparantly, lest the exporters earn too big profits and therefore, heaven forbid, be induced to expand their exports too much! I am not sure whether this scheme in its original form was in actual operation for any length of time, because there were forever new changes introduced.

In the light of subsequent events it should be particularly noted that the original intent of Government was to balance its IL accounts arising from the sale and purchase of foreign currency at the different rates of exchange, apart from a small surplus to be used for the elimination of local debt.

As we have seen above Government operated concurrently three national budgets, viz: the Ordinary Budget, the Development Budget and the (secret) Security Budget. The Ordinary Budget was always formally covered by current revenue (the real situation

was somewhat different); part of the Development Budget was financed by Land Bonds and the whole Security Budget by the issue of Treasury Bills. Since these two financial instruments were legal cover for the note issue, this meant in fact pure deficit finance by the creation of new legal tender money.

Government now decided, and this is the second fundamental feature of NEP, to abolish the (secret) Security Budget altogether and to transfer all defence appropriations to the Ordinary Budget where they would be financed by non-inflationary modes of revenue. The Development Budget would continue its separate existence but here too there would be no more resort to inflationary finance. All revenue would be drawn from the following sources: the excess of current revenue over current expenditure in the Ordinary Budget, counterpart funds arising from capital imports channelled through the Government, i.e. loans, grants-in-aid, gifts, German reparations etc, and internal loans levied by Government. On the expenditure side an increase in the productive nature of the budget was promised. The upshot of all this was Governments solemn undertaking not to issue additional Treasury Bills and Land Bonds over and above the aggregate value level then outstanding.

As to all the other humdrum measures which were part and parcel of NEP, they need not detain us here. One gets the impression that since this was after all a fundamental re-orientation of economic policy it was considered to be a suitable juncture for the inclusion of all sorts of novel policies which happen to have been canvassed in Government circles at the time. They range from Governments intention to pass a law establishing joint productivity committees in all enterprises above a given size, 50 workers, to the founding of an Export Bank (neither of which was implemented), the decision to increase the working week in Government offices to 47 hours (long since reversed) and to encourage further private capital imports (which has ended in the virtual cessation of all bona fide private capital transfers in the two ensuing years). On the all-important wage front Government declared its general intention to link wage-rates to productivity performance. The prime minister however went out of his way to emphasize that this would apply to basic wage-rates only and that the COL allowance which links wages and salaries to the movement of a representative COL index compiled monthly by the Government Central Statistical Bureau, would continue to remain in operation. The ominous significance of this is not difficult to divine and will be fully brought out in the following part.

Looking back upon the original NEP with the perspective of two

years, it is in vain that we search among the measures then enacted to discover its special significance in the scheme of things. The additional issue of Treasury Bills for instance had stopped as far back as April 1951, and that of Land Bonds had been discontinued since August, September of the same year. Exporters and certain other groups offering foreign exchange to Government had long since enjoyed a higher effective rate of exchange. And yet NEP is an event of quite monumental importance in the short but chequered economic history of the State. It marks the end of an epoch, of a development period which was characterized by low, unrealistic exchange rates and violently suppressed inflation. It deserves to be stressed that neither economic insight nor yet theorecital conviction brought on NEP, but that it was conceived as a measure of last desperate resort out of the utter bankruptcy of preceeding policies and the sheer physical inability to maintain any longer the crumbling structure of administrative controls. But once the spell of rigidity had officially been broken, the economy was caught in a new powerful current that swept it along far away from the position of the original NEP. To anticipate just one train of events — in rather less than two years the official rate of exchange at which the overwhelming proportion of all foreign currency transactions are made dropped from $ 2.80-IL to $ 0.55-IL, i.e. a devaluation of the IL by $ 2.25 or 80 %!

BOOK REVIEW/CRITIQUE

Current Issues in Federal Taxation. The American University Tax Institute Lectures, Volume 5. Fritz Karl Mann, Editor. (New York: Matthew Bender and Company, 1953. Pp. XXIII, 562.)

This is Volume 5 of the American University Tax Institute which contains the papers presented in the meetings held in the Brookings Institution, Washington, D.C., in December, 1952, by the Institute on Federal Taxes. The Institute, as in previous years, was sponsored by the District of Columbia Institute of Certified Public Accountants and the Bar Association of the District of Columbia. With one exeption contributors were attorneys or accountants interestted in tax practice or employed in Federal tax administration. The papers deal primarily with various legal and accounting questions and issues in Federal business taxation. However, the recent reorganization of the Bureau of Internal Revenue is the subject of three papers which are largely descriptive of the organizational changes resulting from the adoptation of Reorganization Plan No. 1 of 1952.

Part One: Reorganization of the Internal Revenue Service is discussed in papers entitled "The Washington Headquarters", "The Organization at the Field Level", and "The Office of Chief Counsel in the Reorganized Bureau" by Norman A. Sugarman, Wilber A. Gallahan and Charles W. Davis, all members of the staff of the Internal Revenue Service.

Part Two: Tax Problems in Operating Closely-Held Corporations and Changing Their Capital Structure finds analysis in six papers. The papers are as follows: "Selling the Corporate Business" by S. J. Lanahan; "The Federal Penalty Tax on Unreasonable Accumulation of Corporate Earnings: A Problem for Closely Controlled Corporations" by S.. S. Mintz and W. T. Plumb, Jr.; "Hazards in Leasing Corporate Property to Share holders" by H. W. Rea; "Recent Developments Under Section 115 (g)" by D. P. Kimball; "Thin Incorporations-Debt or Stock?" by Herbert Fuchs; and "Stock Dividends and Recapitalization" by C. B. McInnis.

Part Three: Deferred Compensation Plans is dealt with in two papers entitled "Federal Income Tax Aspects of Pension, Profit Sharing and Stock Bonus Plans" by Isodore Goodman, and "Current Problems and Trends in Approved Pension and Profit Sharing Plans" by James A. Hamilton.

Part Four: Tax Problems Relating to Business Deductions and Time and Manner of Reporting Income finds discussion in six papers as follows: "Expenses and Losses of Farmers" by Henry

G. Burke; "The Deductibility of Lessees' Payments Under Lease Agreements with Option to Purchase" by W. I. Cousins, Jr.; "Overceiling Payments; Price Ceiling Overcharges; Payments in Excess of Price or Wage Stabilization Requirements and Kickbacks" by Morris Fedder; "Unearned Income and Accrued Deductions" by J. S. Mitchell; "Transactional Problems" by W. L. Zimmer, III; and "A Discussion of Mnookin and Some Related Cases" by J. E. Hamilton.

Part Five: Tax Problems of Related Groups are reviewed in the following papers: "Current Developments in Family Partnerships" by R. C. Flesch; "Deterrents to Corporate Income Splitting" by R. M. Weston; "Consolidated Federal Income Tax Returns" by J. R. Hellerstein; "Tax Aspects of Operations Under the Puerto Rican Exemption Program" by H. J. Rudick and G. S. Allan; "The Relative Advantages of Operating in Canada Through a Branch, Domestic Subsidiary or Canadian Subsidiary" by J. P. Crockett; and "Western Hemisphere Trade Corporations by Robert Pratesi.

Space prevents any extended comment on the individual papers. However, one paper of particular interest to the reviewer is that dealing with "The Federal Penalty Tax on Unreasonable Accumulation of Corporate Earnings: A Problem for Closely Controlled Corporations" by Seymour S. Mintz and William T. Plumb, Jr., of the firm of Hogan and Hartson, Washington, D.C., and onetime members of the staff of the Bureau of Internal Rvenue. This paper (pp. 65-93) has been drawn largely from the study prepared for the Joint Committee on the Economic Report of the Congress entitled "The Taxation of Corporate Surplus Accumulation" (1952). It is refreshing to note that the authors of this paper avoid the pitfall which has trapped others endeavoring to analyze former Section 102, I. R. C., now Sections 531, 532, 533, 534, 535 and 536 of I. R. C. of 1954, in which corporate vulrenability to tax has been assumed to be a function of the size of the accrued surplus rather than of corporate liquidity. In the Congressional study referred to above the recommendation was made that "public", along with "private", corporations be brought within the purview of the Section because avoidance of personal income tax is not necessarily confined to the closely held family corporations. With this conclusion the authors of this paper disagree. They contend that "the pressures of minority stockholders demanding dividends, and in a lesser number of instances the threat of anti-trust prosecution in the event of excessive expansion, should be an effective check on improper withholding of earnings" (p. 81). This is an expression of high confidence in the power and influence of minority stockholder groups in the determination of corporate policy as to earn-

ings retention or divided payouts. There is no small amount of evidence which indicates that this expression of confidence is hardly deserved. The obvious answer to the contention above is that for those public corporations not unreasonably accumulating earnings and not attaining an excessive liquidity a review of the corporate finances by the Internal Revenue Service would occasion no difficulty to the corporation or to its shareholders. On the other hand, a "public" corporation establishing a position of excessive liquidity through unreasonable retention of corporate earnings to the surtax advantage of the control group would encounter the hazard of the Section. The argument that the "threat of anti-trust prosecution" is an "effective check" on the withholding of earnings for corporate real investment is not only irrelevant to liability under the Section (which is grounded in excessive corporate liquidity) but is a testimonial to the effectiveness of the administration of our anti-trust laws which the reviewer believes would be most difficult to justify. These comments should not be adversely construed, however, as this paper is one of the superior discussions of an important tax problem in the volume. The authors are to be commended on the thoroughness and care with which the many aspects of the problem are treated.

The twenty technical papers in Parts Two to Five inclusive are competently written, in general, with evidence of careful research and cautious analysis. Attorneys, accountants and professional economists engaging in tax practice and teaching will find much that is of interest and use in the discussions.

JAMES K. HALL
University of Washington
Seattle, Washington

ISRAELS NEW ECONOMIC POLICY IN ACTION
1952-1954

BY SAAKI ERETZ AHUVAH
Jerusalem

A. *Introduction:*

This final part is devoted to an analysis of the development of the national economy for just over two years after the inception of NEP, from the beginning of 1952 down to the spring of 1954. A three-fold division of the subject-matter suggests itself: the first section sets out broadly the principal independant variables in the situation; the next one traces the main resulting derived processes, while the last section attempts an overall assessment of the Israel economy and of NEP in the light of the whole foregone inquiry. Such a treatment is really more in keeping with a cross-sectional, snap-shot analysis at a point of time than with the kind of dynamic analysis over a flow of time with which we are concerned here. I have none the less adopted this method because it commends itself as a convenient way of grouping together and presenting a rather heterogeneous mass of data and developments in a systematic and orderly fashion. Troughout I have endeavoured to indicate the temporal sequence of events as far as it is possible and practicable within the limits of space imposed by the framework of the essay.

B. *The Independant Variables:*

There are six principal independant variables which we have to consider:

1. *Demographic Changes:*

NEP came in the wake of the virtual cessation of mass immigration, though there is no evidence to suggest any causal relationship between the two events. The net Jewish influx into the country during 1951, i.e. the excess of all arrivals over all departures, still reached nearly 167,000 persons, see table 1. above; but most of it was concentrated in the first half of the year and tapered off very rapidly during the second half of the year, i.e. 126,264 for Janary-June as against 40,595 during July-December 1951. In 1952 net immigration dwindled further to a total of 10,686, and for 1953 the statistics even record a small net emigration of 1,764 Jews out of Israel, — for the first time since the establishment of the State.

Jewish population growth which was therefore confined in the main to natural increase advanced slowly from 1,404,000-1,484,000

during the two years end 1951-53 an increase of 80,000 or of 5.7 %

2. *Creeping Devaluation:*

It may be thought at first glance that NEP devalued the Israel currency by 50 % from IL 0.356-$ 1.00 to the 'B' rate of IL 0.700-$ 1.00, and that the two peripheral 'A' and 'C' rates were in the nature respectively of a subsidy on essential imports and an inducement to private, foreign investors. In truth NEP set into motion a process of continuous creeping devaluation which extends over the whole period under review and which, according to all the signs, is far from having been completed even by this day. This is sometimes to-day, retro-actively, alluded to as a temporal extension of NEP into the future but personally I have very formidable doubts whether this process was ever visualized, let alone planned, in the original program.

There are at least four distinct strands in Governments exchange rate policy which merit attention in this context:

a. Throughout the first year of NEP there took place a continuous switch-over in foreign currency transactions from the lower to the higher exchange rates.

b. The rates of exchange at which the treasury bought foreign exchange were on the whole appreciably higher than the rates of exchange at which it sold foreign currency, so that the so-called Exchange Fund which handled all foreign exchange transactions incurred a constantly growing deficit in its IL accounts.

c. The 'B' rate of exchange remained insignificant throughout. Taking the trade statistics month by month, the volume of imports brought at the 'B' rate of exchange never amounted to 10 % of the total. At the most the 'B' rate may be looked upon as a kind of stepping stone from the 'A' to the 'C' rate of exchange.

d. During 1952 most customs were changed from specific to ad valorem duties so that the absolute amount payable rose as the devaluation proceeded. In addition to this various categories of imports were subjected to 'special' duties, surcharges and kindred other fiscal impositions. As a result of this the three official rates of exchange became quite devoid of meaning as an indication of the IL prices paid for official imports. They were supplanted by so-called 'effective' rates of exchange, of which there were any number now, which were calculated as the sum of the official 'A', 'B', 'C' rates of exchange plus the special impositions.

In April 1953 the average offical rate of exchange for imports as recorded in the foreign trade statistics equalled IL 0.862-$ 1.00

as against a position of IL 0.671-$ 1.00 for April 1952. The average 'effective' rate of exchange for imports had by that latter date passed the IL 1.000-$ 1.00 line, even though a few selected goods such as whet, fuel, fats, sugar and medical supplies were still imported at very much lower 'effective' rates of exchange. (The average 'effective' rate of exchange for 1952 has been estimated at IL 1.149-$ 1.00 and for 1953 at IL 1.613-$ 1.00). The stage was set for the appearance of the so-called premium payment consisting of eight-tenth of a IL or 800 prutah for every dollar.

The premium was initially, in April 1953, awarded to tourists to induce them to exchange their foreign currency through official channels. But already in the following month selected industrial exports became eligible for the same privilege. During the summer months the premium spread rapidly to cover all exports until it had lost its character of a premium and had become in fact a new 'P' for premium rate of exchange of IL 1.800-$ 1.00 on the purchase side of foreign exchange (excluding the National Institutions). This process was completed when, in the fall of 1953, with the begin of the new citrus season, Israels staple export crop too was granted the new 'P' rate of exchange, though not before the treasury had put up a tough rear-guard action. This final link already overlaps with a new development for in the late summer of 1953 a beginning had been made with switching various categories of imports to the new 'P' rate of exchange. This was accompanied by a diminution or abolition of the special surcharges. Since then the general movement has been towards the unification and consolidation of all exchange rates both on the purchase and sales sides, at the IL 1.800-$ 1.00 level. It is almost comical to relate but long after most foreign exchange transactions had been brought to the IL 1.800-$ 1.00 rate of exchange, Government, for good reasons of its own, held on to the fiction of an official IL 1.000-$ 1.00 rate of exchange plus a premium of 800 Prutah. In what sense is can meaningfully be said that importers have to pay the treasury a 'premium' of 800 Prutah per $ for the foreign exchange they buy from it, has never been made clear.

To-day all imports are officially at the IL 1.800-$ 1.00 rate of exchange but in the 1954/55 budget special subsidies are provided to bring the effective rate of exchange:

(i) on bread (i.e. imported wheat), to below the IL 1.000-$ 100 rate;

(ii) on other essential imports, medical supplies and materials for agriculture, to the IL 1.000-$ 1.00 rate;

(iii) on imported fuel to the IL 1.300-$ 1.00 rate of exchange.

Total subsidization, in this limited sense, is officially estimated at about IL 60 million for the whole financial year. It is financed, partly by buying foreign currency from the National Institutions at the IL 1.3-$ 1.00 rate of exchange (i.e. an estimated $ 50 million yielding IL 25 million), and partly from other sources; IL 26 million will be born as a straight subsidy by the budget.

3. *Compulsory Loans:*

Since NEP Government has levied three compulsory loans which are planned to net about IL 80 million. Two reasons are mainly responsible for this policy development: on one hand the limited success attending Government's voluntary popular loan drives in the pre-NEP area, and on the other hand Government's search for new sources of revenue to take the place of the now defunct inflationary deficit finance by the issue of Treasury Bills and Land Bonds.

a. In June 1952 Government announced in a surprise move an exchange of the bank note issue (the second one, it should be noticed, in the lifetime of the State, after the exchange of Palestine Currency Board notes in September 1948). The notes were exchanged at par but Government deducted 10 % on account of a compulsory loan. The same flat percentage was forcibly borrowed from all bank deposits above IL 50. The operation netted Government IL 21.6 million, IL 10.6 million of which on account of the note issue. The rate of interest was fixed at 4 %. The money was not clean taken out of circulation but was used to finance Development Budget expenditure for financial year 1952/53 and in this way it was gradually returned to the economy.

b. At the time of this minor money reform the Finance Minister gave an undertaking that Government would in due course of time introduce legislation for a compulsory loan on property in order to redress the balance of financial sacrifice. This became law in 1953. The property loan is payable in instalments over three years. It is for a period of twenty years and bears rate of interest of 4 %. The amount of the loan is fixed as percentage of property value and rises above an exempted base of IL 5,000 from 4½ % to a maximum of 10 % for all property worth IL 65,000 and more. Some alleviations are provided for properties not exceeding IL 16,000. The loan is designed to net IL 45 million in such a way that if it brings in less rates will be increased all-round in order to make up the missing sum. Property owners may opt for a capital levy which is in all cases half of the loan. The IL 45 million revenue line does not of course apply to the extent that people chose the levy rather

than the loan. It appears that most property owners prefer the levy. During financial year 1953/54 the estimated income was put at IL 12 million and this too was earmarked as revenue of the Development Budget.

c. In the spring of 1953 unemployment in Israel assumed serious proportions (please see section C.6. below). To finance emergency employment schemes Government proposed another compulsory loan of IL 25 million. After long deliberations the sum in question was scaled down to IL 15 million and it was decided to levy it in the form of an advance on income tax to be refunded over the following three years. The advance was determined, on the basis of the last assessment, as a progressively rising percentage. Employees paid it in ten equal instalments through June 1953-March 1954, independants in four instalments over the same period. Income on the advance has been disappointing particularly on the independants side, but Government will continue vigorously to prosecute the collection of all payments outstanding under the scheme. The advance featured also on the revenue side of the Development Budget.

4. *Bank Credit Control:*

Israel has to date no Central Bank. One is at present in the process of being set up and will presumably start operating by the end of 1954. Meanwhile statutory control over banking is confined to the Mandatory Banking Ordnance of 1941 under the auspices of which an Examiner of Banks was set up who is now an official of the Ministry of Finance (he will be transferred with his staff to the Central State Bank as and when it starts officially to function). The same law made provision for a Banking Advisory Committee composed in the main of prominent bankers. As the name implies its chief function is to advise Government on questions of bank credit policy. Since 1950 this Committee has been instrumental in introducing a number of measures of quantitative and qualitative bank credit control. Though it has no legal authority its moral suasion backed by Government has proved adequate to impose its will on the banking community. We will briefly consider now in turn the development of quantitative and qualitative bank credit control in Israel, with particular reference to the NEP period.

a. Quantitative Control, — was first introduced in the autumn of 1950 in the form of minimum liquid reserves which banks are required to hold against different types of deposits and liabilities. Liquid assets for this purpose are defined as the following:

Cash in till
Treasury Bills
3 % Government Loan Certificates (financial institutions)
Net Balances.

On the liability side banks are required to keep 100 % liquid assets against balances (i.e. which other banks etc. deposit with them). Time deposits above eighteen months are exempt from all control provisions. The amount of liquid assets to be held against demand deposits and time deposits up to 18 months has successively been revised and tightened up: it was fixed in November 1950 at 45 % of deposits. In the following spring the liquidity ratio was raised to 50 % of deposits outstanding as per 31st March 1951, and to 75 % of all additional deposit creation beyond that date. The ratio was then increased to 90 % of additional deposits over and above those outstanding either on 31st December 1952 or 31st March 1953 according to the banks choice. Beginning with February 1954 Government decided to freeze bank credit altogether at the level prevailing at the end of November 1953. This was initially for a period of three months only but it was later extended for another three months.

These rather peculiar liquidity provisions were designed on one hand to limit the total expansion of bank money and on the other hand to make sure that Government would get the lions share of any future expansion that might take place.

b. Qualitative Control, — was first introduced in the spring of 1951 and took the form of suitable instructions issued by the Banking Advisory Committee to the banks. These were in the first instance negative injunctions urging upon banks not to expand credit facilities for speculative or inessential purposes, i.e. real estate, mortgages, private construction, commerce etc. Two years later in the spring of 1953 these negative controls were supplemented by positive controls for the channeling of bank credit to the various branches of the economy. Top priority is accorded to agriculture and all banks are required to make at least 20 % of their total outstanding credit facilities available to it. Banks which usually have no dealings with agriculture can put their 20 % quota at the disposal of the Ministry of Agriculture which allocates it, with the help of the various local colonization and agricultural-produce marketing organizations, to the farmers. All such directed agricultural credit is 50 % Government guaranteed. This system has on the whole worked very well. Second and third place on the priority list is occupied respectively by the finance of exports and of essential imports respectively.

During 1952 bank credit started to get very scarce. This was

partly due to the operation of the quantitative controls referred to above. But in part too it was an artificial scarcity created by the co-existence of a rapidly rising price level (please see section C.1. below), with a comparatively very low official interest rate structure. (A Turkish-Ottoman law dating back to 1887 but still of legal validity limits the maximum permitted rate of interest to 9 %.) Since the annual rate of increase in the price level was much larger than 9 % it follows that banks earned a negative rate of interest, — unless and to the extent that they supplied the rapidly growing black market for bank credit where rates of interest exceeded the permitted maximum level by about 200 %-400 %.

To meet the clamour for more (official) credit facilities, a strange practice grew up. Government issued so-called Letters of Dispensation permitting banks to lend money to certain people and for certain purposes outside the framework of prescribed liquidity ratios. This had the effect of turning the quantitative credit controls into an instrument of qualitative control. For Government naturally did not issue Letters of Dispensation to all applicants but only for selected purposes and projects which it considered to be essential for the well-being of the national economy. In time two liquidity ratios developed: a higher one layed down by Government acting through the Banking Advisory Committee, and a lower one dictated by the bankers own prudency. The margin of bank credit between the two liquidity points became subject to the most detailed qualitative control through the operation of the Letters of Dispensation. Government has been extremely reticent in releasing information on the scope of bank credit outside the liquidity framework and covered by its Letters of Dispensation, but according to informed press estimates it must be reckoned in tens of millions of IL during 1953 when it reached its highest peak.

5. *Cost of Living (COL) Allowances:*

Various COL allowance schemes applicable to different classes of employees were evolved in Palestine during the early years of the Second World War as an institutional device to maintain the real income of wage and salary earners under conditions of rising prices. They continued their separate existence during the first years of the State. The most prominent of these schemes was probably the COL allowance for workers in industry, the maximum value of which rose from PL 3.200 (Palestine Pound) in January 1941 to almost IL 30.000 in the fall of 1951. (During 1949-1950, the period of administrative price cuts, COL allowances were reduced by altogether IL 5.525, but increases of other components of gross wages more than compensated for this so that even then

gross money wages increased — see part 1. p. 17 above.)

In September 1951 the new COL index came into force. Gross wages inclusive of the then COL allowance became the new basic wage and a new unified COL allowance system was introduced having as its base September 1951. For every one point increase in the COL index, wage and salary earners are entitled to an allowance or bonus equal to one hundreth of theis basic wages, up to a maximum basic wage of IL 80.000 monthly. The allowance is subject to revision every three months if in the intervening period the COL index has gone up or down by three points or more. During most of 1952 the adjustment was effected at lesser time intervals owing to the very rapid rise in the price level at that time.

Beginning with December 1953 the basic wage ceiling on which COL allowances are paid was raised from IL 80.000-IL 125.000 monthly so that the maximum COL allowance value for a one point increase in the COL index rose from IL 0.800-IL 1.250.

COL allowances are not provided by law but are in the nature of a voluntary agreement freely arrived at by a process of collective bargaining between Histadruth, the General Federation of Labour, and the Manufacturers Association. It does however set the tune for almost all wage and salary contracts in the country and is among others binding upon the Government as employer itself.

6. *Budgets:*

In the present context it is possible only to deal with the question of budget deficits. From that point of view it is convenient to distinguish between three phases in the budgetary development of the State:

a. The opening period which extends over the first four years of the State from May 1948 to the end of March 1952 was characterised by open deficit finance by the issue of Treasury Bills and Land Bonds to cover expenditure under the (secret) Security Budget and the Development Budget respectively. Even the ordinary Budget was not financed completely by current revenue. A mysterious item entitled, ' Loans, Participations and Special Incomes" accounted for one third of all revenue during 1948/49, for 25 % during 1949/50 and for 10.5 % during financial year 1950/51.

b. The second period covers the two financial years April 1952-March 1954. Government honoured its NEP pledge not to have resort to further increases in the volume of outstanding Treasury Bills and Land Bonds for the finance of its budgets. All the same Government did not manage to balance its financial transactions. The deficits which occurred were shifted to extra-budgetary ac-

counts. It is therefore appropriate to call this the period of concealed deficit finance.

The main financial device by which Government concealed its budget deficits was the Exchange Fund which was set up at the time of the official institution of the multi-lateral exchange rate structure in February 1952 to handle all Government sales and purchases of foreign currency. Though the Exchange Fund operations constituted an integral part of Governments financial transactions on current account they were arbitrarily excluded from the purview of the budgets. The way was thereby opened to shift Government deficits from its budgets on to the Exchange Fund. Any number of ways readily suggest themselves of how this can be done. Here I will mention only two of the most obvious ones which were consistently trod upon:

(i) On the revenue side — Government fixed low rates of exchange for imports and then made up for it by high customs duties and other charges. The IL income from selling its foreign currency to importers at very low exchange rates was credited to the Exchange Fund, while the customs duties etc. went to swell Governments ordinary revenue.

(ii) On the expenditure side — Government bought its own foreign currency needs from the Exchange Fund at the lowest 'A' rate of exchange, i.e. mainly for defence, the diplomatic service and foreign loans, — servicing of interest as well as repayment of principal. In this way it kept its own IL expenditure in the budget at a minimum at the price of enlarging the deficit of the Exchange Fund.

Government has been extremely reticent in releasing information on the state of accounts in the Exchange Fund. But in his budget speech to the Second Knesseth in February 1954 the finance minister publicly admitted that, "the deficit in the Exchange Fund during the last two years will reach the sum of IL 60 million" (my own translation from the Hebrew). In the final analysis as already noticed, this deficit was caused by Government selling to itself and to importers foreign currency at lower rates of exchange than those at which it acquired foreign currency.

Another way of concealed deficit finance which develop during this period was the issue of Promissory Payment Notes by the Accountants General Branch of the treasury to cover expenditure under the Development Budget. They usually were for quite short periods ranging up to six months. On 31st March 1953, i.e. at the end of financial year 1952/53, there were IL 12.9 million worth of these Promissory Payments Notes outstanding. They rose to a

peak of IL 20.4 million in August 1953, but by the end of February 1954, the latest date for which official (provisional) figures are available at the time of writing, the value of outstanding Notes has been cut back to IL 6.5 million.

It is hardly plausible to suppose that Government suppliers and contractors could finance out of their own pockets even for a short time the millions of IL which Government owed them in its Promissory Notes. It is more reasonable to assume that most of them were discounted at the banks. In view of the severe limits placed, as we have seen, by Government on the quantitative expansion of bank credit, the conjecture is near that for many or most of these Notes Government issued in due course of time Letters of Dispensation in order to get for them bank credit outside the liquidity framework. To the extent that this actually occurred it is not difficult to see that the combination of Promissory Payments Notes *and* Letters of Dispensation amounted to something uncannily similar to the now discontinued Land Bonds. Both were instruments of Development Budget finance, and both led to the expansion of the money supply. The one great difference is that Land Bonds are legal cover for the currency and therefore brought about an expansion of the note issue while the combined Promissory Notes and Letters of Dispensation did not.

c. The 1954/55 budget as it has been tabled before the Knesseth ushers in a third period. All foreign exchange transactions in the budget have been brought to the IL 1.8-$ 1.00 rate of exchange. This eliminates at one stroke the Exchange Fund and all possibility of shifting budget deficits to it. It is true that a number of goods will continue to be imported at lower 'effective' rates of exchange, but these are now officially admitted to be consumers subsidies to the tune of about IL 60 million annually. Yet another breach in the unified exchange rate as already noted are the National Institutions which will get only IL 1.300 for a $ on the sale of an estimated $ 50 million. But these are comparatively minor residual deviations in comparison with the fact that all Government's own expenditure in foreign currency, amounting to several tens of millions of dollars annually, have been calculated in the body of the budget at the IL 1.8-$ 1.0 rate of exchange. And yet, although the revenue and expenditure sides of the budget proposals neatly add up to the same global figure, they still contain a sizeable and economically significant deficit. The deficit is on the side of Government's transactions on current account and is is planned to cover it by having resort to revenue sources belonging to Government's transactions on capital account. In order to gloss over this fact the usual practice has been discontinued of presenting

transactions on current and capital account respectively in the form of two separate budgets, i.e. the Ordinary and the Development Budget, and all accounts have been subsumed under one consolidated State budget. Still, by simply disentangling income and expenditure items under both accounts and showing them separately, the all too transparent truth stands revealed.
According to the proposed budget law for financial year 1954/55 revenue on capital account will be as follows:

Counterpart Fund of German Reparations . . .	IL	72 million
Counterpart Fund of U.S. Government Grant-in-Aid	IL	80 million
Independance and Development Loans (Foreign)	IL	45 million
Collection on account of Loans (Capital) and Government Property	IL	23 million
Development Authority and Sale of Houses . . .	IL	6 million
Forced Loan/Property Levy	IL	9 million
Low Rate of Exchange to National Institutions (Difference between IL 1.3-$ 1 and IL 1.8-$ 1 on sale of $ 50 million)	IL	25 million
Total:	IL	260 million

Projected Government expenditure on capital account amounts to the following:

Development Budget	IL	168 million
Pament of Debt (Capital)	IL	41 million
Total:	IL	209 million

It follows that revenue is planned to exceed expenditure on capital account by IL 51 million or roughly 20 % of all capital account revenue. Since the whole consolidated budget does not show a similar surplus but merely balances, the logical conclusion is that Government is planning to incur a deficit of IL 51 million on

Note: The counterpart funds of the German Reparations and of the U.S. Government Grant-in-Aid, and the foreign exchange income of the National Institutions, have been listed as revenue sources under capital account even though they do not in a strict book-keeping sense increase Government's debt or decrease Government's assets abroad. The reason for this is that by law and/or unanimous consent the above-listed sources of revenue are earmarked for basic investments in the economy, — the two counterpart items for example have appeared in all former years since their inception, on the revenue side of the then separate Development Budget.

current account which will be covered by a transfer from capital account.

C. *The Derived Processes:*

In this section we will briefly trace six developments in the economy which were determined by the operation of the aforegone independant variables. (The six-fold division of this and the former section is purely coincidental and of no intrinsic significance.)

1. *Price Level:*

The official COL index which is computed by the Government Central Bureau of Statistics records a continuous increase since the inception of NEP.

Table 12:

The Cost of Living (COL) Index, Sept. 1951-March 1954

MONTH	YEAR			
	1951	1952	1953	1954
January		113	181	214
February		120	182	216
March		132	184	217
April		144	187	
May		150	191	
June		157	197	
July		162	200	
August		165	201	
September	100	169	205	
October	103	173	207	
November	105	175	208	
December	107	178	212	

During the first year of NEP, February 1952-1953, the COL index rose by 62 points or 52 %. During the second year up to February 1954 the rate of increase slowed down to 34 points or 19 %. The most rapid increase occurred immediately after the introduction of NEP during the five months February-July 1952, when the index rose by 42 points or almost a third.

The initial price increase from September 1951 to the eve of NEP is in continuation of a trend of growing momentum throughout 1951 when the intolerable pressure of excess purchasing power began to force the index up. It also foreshadows a change in official thinking which later found full expression in NEP. During the last quarter of 1951 for instance, Government pursued a more liberal

price policy for domestic agricultural produce in order to encourage its expansion. Then came NEP with its uprupt devaluation of the IL followed by an almost continuous process of creeping devaluation. The steepness of the rise in the local price level reflects not only the magnitude of the devaluation but possibly even more Israels great dependance on imported goods and services. Another contributory cause was the existence of a large volume of excess purchasing power in the hands of the public which was absorbed in the process of price increases. It is this which accounts for the fact that at least during the initial stage most sections of the community managed to ride the wave of rising prices and to increase their nominal incomes, — wages, profit margins etc., sufficiently to maintain real incomes. This of course in turn, in its own rights, reinforced the pressure of rising prices.

2. *COL Allowances:*

In the light of the continuous increase of the COL index and in view of the existence of the automatic COL allowance mechanism, nominal wages and salaries rose without respite throughout the period under review. The following table traces the growth of monthly COL allowances. I have assumed the case of an employee earning a basic income of IL 100 monthly which may be considered fairly representative for the country as a whole.

Table 13:

The Growth of Cost Living (COL) Allowances

Period	COL Index	Monthly COL Allowance Per Capita		
		For Period	Addition	Total
			IL	IL
1951				
December	107	January-February '52	—	5.600
1952				
February	120	March	10.400	16.000
March	132	April	9.600	25.600
April	144	May-June	9.600	35.200
June	157	July-August	10.400	45.600
August	165	September-November	6.400	52.000
November	175	December '52-Febr. '53	8.000	60.000
1953				
February	182	March-May	5.600	65.600
May	191	June-August	7.200	72.800
August	201	September-November	8.000	80.800
November	208	December '53-Febr. .54	7.000	87.800
1954				
February	216	March-May	8.000	95.800

The computation of the COL allowance is simple. Let us take for purposes of illustration the first line under 1953 in the above teble. In February 1953 the COL index stood at 182 points. This determined the amount of COL allowance, which was revised in mid-March 1935, for the three months period March-May. In our case we have assumed the worker to earn IL 100 basic wages monthly. Hence he is entitled to the maximum IL 0.800 allowance per point of COL index increase. The increase in the index of February 1953 over November 1952 is seven points, therefore his allowance goes up by IL 5.600 (7 × IL 0.800). At index 182 his total COL allowance equals IL 65.600 (82 × IL 0.800) It should be noticed that since the allowance is revised in the middle of the month-, daily, weekly and fortnightly renumerated employees are still paid on the basis of the old allowance for the first two weeks of March 1953, i.e. according to the position of the index in November 1952, which determined the allowance for December 1952-February 1953. However, monthly paid employees get the benefit of the new COL allowance for the whole month of March and it is usual to correlate temporally COL index to COL allowance the way we have done in the above table.

Owing to the very rapid rise in the COL index immediately after the introduction of NEP, i.e. 12 point for each March and April 1952, Histadruth demanded and secured the monthly adjustment of COL allowances. This was exchanged for a twice two-monthly period during May-August and only in September 1952 was the usual three monthly adjustment period reverted to.

By the agreement of December 1953 the maximum basic wage ceiling to which the COL allowance applies was raised from IL 80 to IL 125 monthly so that for every point increase beyond 201 our employee with an assumed basic wage of IL 100 receives a bonus of IL 1.000. The maximum possible COL allowance according to the index of 216, which accrues to wage and salary earners with basic incomes of IL 125 and above, is just short of IL 100, i.e. IL 0.800 per point or IL 80.800 on the first 101 points and IL 1.250 per point or IL 18.750 on the remaining 15 points, total IL 99.550.

COL allowances have been increasingly exempt from income taxation. During 1952/53 50 % of COL allowances were freed of income tax. This concession was later made general by lifting the personal basic allowance from IL 325-IL 620. This took care of COL allowances (maximum IL 60) corresponding to 175 points in the index. Above the 175 point index level COL allowances were exempted from income tax to the tune of 70 %, later raised retroactively to 80 %. Quite recently it was announced that all increases of COL allowances beyond January 1954, i.e. above the corres-

ponding COL index of 208, will be 100 % freed from income tax.

3. *Wage Rates:*

Despite an official freeze, basic incomes of most employees have in one way or another risen since NEP, — by increase of seniority allowances, up-grading, or the outright revision of wage and salary scales such as the one which has only recently been concluded in Government employment. Wage incomes have also been augmented by way of productivity premium payements. The lions share however in the increase of nominal wage rates belongs to the operation of the automatic COL allowance mechanism.

Beginning with January 1952 the Government Central Bureau of Statistics is compiling a monthly series of wege rates in industry which is reproduced in the following table.

Table 14:

Nominal and Real Daily Rates of Remuneration in Industry (Both Sexes, All Ages)

PERIOD	Nominal Daily Pay Rate		Adjusted COL Index (Jan. 1952 = 100)	Index of Real Daily Pay Rate
	IL 1	Index 2	3	(2 ÷ 3 x 100) 4
1952				
January . . .	3.093	100	100	100
March	3.543	114	117	97
June	4.411	143	139	103
September . .	5.077	164	149	110
December . . .	5.240	169	157	108
1953				
March	5.542	179	163	110
June	5.697	184	174	106
September . .	6.175	200	181	110
December . . .	6.247	202	188	107
1954				
January . . .	6.277	203	189	107

In order to trace the development of real wage and salary rates we have brought the COL index to a new basis, January 1952 = 100. Nominal rates of pay in industry rather more than doubled during the two year span January 1952/54. The COL index rose by only 90 %. Hence real rates of pay over the period advanced by about 7 %.

4. *Money Supply:*

The following table traces the supply of money to the public since the beginning of 1952.

The two prime components of money supply to the public are currency issue and non-Government bank deposits. The increase of the former was curbed by Government's undertaking not to increase the volume of outstanding Treasury Bills and Land Bonds which are legal cover for the national currency, and the expasion of the latter was held in check by the adoption of successively tightening measures of quantitative credit control. Although Government did incur considerable deficits in its budgets, shunted to the Exchange Fund, these did not give rise directly to a commensurate expansion of the money supply as in a previous period.

The precipitate drop of the currency issue during June 1952 reflects of course in the main the operation of the compulsory 10 % loan already considered (in part however it is also due to the contraction of bank loans and the sale of the resulting excess cash in the hands of the banks to the Issue Department, which whatever the causes responsible for it, was quite considerable). The loan money was gradually fed back to the economy by way of Development Budget expenditure and already in November 1952 the volume of issued currency topped the immediate pre-loan total.

A similar movement, if less marked, can be observed on the side of demand deposits which dropped by IL 7.6 million during June 1952. The 10 % deducted from all deposits above IL 50 were transferred from private account to Government's account and are therefore, by definition, excluded from the supply of money to the public. Demand deposits recovered their pre-loan volume at the same time as the currency issue, in November 1952.

During the two years January 1952/54 the currency issue expanded by IL 38.4 million or by 36.2 %. This expansion was made possible by the gradual return of Treasury Bills from banks and other financial institutions to the Issue Department to provide cover for the additional currency issue. Between the end of 1951-February 1954 the portfolio of Treasury Bills held by the Issue Department increased by about IL 40 million, from IL 20.4-IL 60.1 million, while the volume of Treasury Bills held by banks and credit cooperative societies dropped during the same time span by about IL 38 million, from IL 46.3-IL 8.8 million. (The total volume of outstanding Treasury Bills as it was frozen way back in April 1951 just topped IL 69 million.)

The fall in Treasury Bills held by the banking system reduced its liquid assets and might have been expected to lead to the con-

Table 15.

Supply of Money to the Public, 1952—January 1954, I £ millions

PERIOD	Total issued Currency (banknotes and coins)	Cash holding of banks and Credit Co-op. Societies	Total Currency in Circulation (1-2)	Demand Deposits and other Credit Balances	Total Money Supply Excl. Time Depos. (3 + 4)	Time Deposits up to 12 months	Total Money Supply inclusive of. Time Deposits up to 12 months (5 + 6)
	1	2	3	4	5	6	7
1952							
January	106.0	7.1	98.8	147.7	246.8	11.7	258.0
February	112.7	8.5	104.2	145.1	249.4	12.0	261.4
March	114.6	10.2	104.4	135.6	240.1	12.3	252.4
April	117.7	11.9	105.9	147.7	253.5	12.1	265.6
May	117.5	9.6	107.9	149.2	257.1	12.2	269.3
June	100.3	10.7	89.6	141.6	231.2	11.7	242.8
July	103.0	9.2	93.9	139.3	233.2	11.7	244.9
August	109.2	8.8	100.5	143.4	243.9	11.2	255.1
September	113.6	9.8	103.8	148.4	252.2	11.3	263.5
October	115.8	11.1	104.8	148.5	253.2	11.4	264.6
November	119.4	11.2	108.1	149.7	257.8	11.3	269.2
December	122.2	16.2	106.0	151.2	257.2	10.8	268.0
1953							
January	123.1	10.7	112.4	155.6	268.0	10.2	278.3
February	128.3	11.9	116.4	158.3	274.7	11.0	285.6
March	134.1	10.3	123.8	155.0	278.8	12.6	291.4
April	132.6	14.2	118.4	157.3	275.7	13.0	288.7
May	133.2	15.1	118.1	159.4	277.5	13.0	290.4
June	132.1	14.9	117.2	168.4	285.7	14.0	299.6
July	133.5	14.4	120.1	172.4	292.4	14.3	306.7
August	135.2	14.5	120.8	177.8	298.6	15.0	313.6
September	138.8	14.2	124.6	184.1	308.7	15.7	324.4
October	140.3	15.5	124.8	188.6	313.4	16.1	329.4
November	141.8	15.4	126.4	192.5	318.8	16.2	335.0
December	141.7	13.8	128.0	192.3	320.3	16.5	336.7
1954							
January	144.4	15.1	129.3	199.8	329.1	13.8	343.0

traction of deposits. In point of fact demand deposits rose by IL 52.4 million during the two years January 1952/54. (It should be noticed however that the increase during 1952 was very small.) Three reasons conspired to bring this about: firstly, some of the additional currency issued by the Issue Department against the increased holding of Treasury Bills remained in the banks and so compensated in part for the loss of Treasury Bills in the latters liquid assets portfolio; secondly, greater resort was had to engineering liquid assets for end-of-month purposes, particularly in connection with the so-called "Items in Transit" or Net Balances; and thirdly and by far most importantly, owing to the practice, which according to all the circumstantial evidence available assumed serious proportions during 1953, of issuing Letters of Dispensation for the increase of bank credit (responsible for additional deposit creation) outside the liquidity framework (see section B.4. on page 321 above).

The money supply exclusive of time deposits (column 5. in table 15, above) increased from IL 246.8 million in January 1952- IL 329.1 million in January 1954, an increase of IL 82.3 million or a third. But while during the first year (end Jaunary 1952/53) the increase was only IL 30.7 million or 12.4 %, during the following twelve months period end January 1953/54, it amounted to IL 61.1 million or 22.8 %.

5. *Dis-Inflation:*

The steep and continuous rise in the level of prices accompanied by a less than proportional expansion of the nominal money supply led to a drop in the real supply of money. This process is traced in table 16.

Already in the first part, please see table 10. above, we saw that the real money supply contracted during the final quarter of 1951. This process continued at an accelerated pace into the following year. During the first six to seven months of 1952 the supply of money in real terms in the economy shrank by about one third. It then remained stationary for a year until about mid-1953, i.e. the increase in the nominal money supply was roughly proportional to the increase in the COL index. During the final half of 1953 and the beginning of 1954 there has been manifest an imperceptible tendency for the rate of expansion of the nominal money supply to outstrip the increase of the price level. This is particularly true of demand deposits which expanded by IL 19.9 million or 11.5 % during July-December 1953, as against only IL 8.2 million or 6.1 % on the side of the currency issue. (It was this development which

among others prompted Government to freeze bank credit at the beginning of 1954.)

Table 16:

Supply of Money to the Public in Real Terms, 1952—January 1954

I £ millions

PERIOD	Nominal money supply		Adjusted COL Index Jan. 1952 = 100	Real money supply	
	Absolute No *)	Index		Absolute No (2÷3×100)	Index
	1	2	3	4	5
1952					
January . .	246.8	100	100	246.8	100
February . .	249.4	101	106	235.3	95
March . . .	240.1	97	117	205.2	83
April . . .	253.5	103	127	199.6	81
May	257.1	104	133	193.3	78
June	231.2	94	139	166.3	67
July	233.2	94	143	163.1	66
August . . .	243.9	99	146	167.0	68
September .	252.2	102	149	169.3	69
October . .	253.2	103	153	165.5	67
November . .	257.8	104	155	166.3	67
December . .	257.2	104	157	163.8	66
1953					
January . .	268.0	109	160	167.5	68
February . .	274.7	111	161	170.1	69
March . . .	278.8	113	163	171.0	69
April . . .	275.7	112	165	167.1	68
May	277.5	112	169	164.2	66
June	285.7	116	174	164.2	66
July	292.4	118	177	165.2	67
August . . .	298.6	121	178	167.7	68
September .	308.7	125	181	170.5	69
October . .	313.4	127	183	171.3	69
November . .	318.8	129	184	173.3	70
December . .	320.3	130	188	170.4	69
1954					
January . .	329.1	133	189	174.1	70

Notes
*) See table 15, column 5.

The contraction of the real money supply by one third had a salutary dis-inflationary impact on the national economy. Bye and large it may be said that it was sufficient to sqeeze out the excessive purchasing power in the economy. However, to put the statement into the right perspective, it should clearly be born in mind that the net volume of capital imports, with all its enormous deflationary incidence, continued at a very high rate (please see table 18, below).

By the end of 1952 it was possible to proceed with the official

dismantling of the physical control structure. Those were the days when the newspapers carried big announcements by the authorized Government Departments containing long lists of goods and services which were officially being de-controlled. I imagine to most citizens it must have come as a bit of a shock to learn that many of the commodities in question were at all available in the country, or perhaps more appropriately, that they had ever been price controlled! By the spring of 1953 all items of clothing and shoe-wear had been de-rationed without causing either a run on shops or precipitate price rises. Vegetables and fruit followed apace. Slowly the price mechanism was coming into its own again. An attempt in early 1953 to de-ration poultry meat proved abortive and controls had to be clamped down again after a week or two of freedom in the face of spiralling prices. This strikes one as rather similar to the first attempt in Britain in 1948 or 1949 to abolish sweets rationing which was short-lived for the same reason.

To-day, in the spring of 1954, some articles of food apart, there is no more consumers rationing in Israel. And even in the rationed sector of basic food-stuffs the price differentials between the official, rationed, and the unofficial grey-black markets have narrowed down, — though they continue to be considerable in such items as meat, sugar, coffee etc. Another noteworthy development is that even in the rationed food sector, over and above the allocation of fixed rations, the very pretence at effective enforcement of the law has been abandoned, and everything is publicly bought and sold at free market prices wherever a street hawker advertises his wares. This bears affinity to the situation in Belgium in the immediate post-war years.

The efficacy of the dis-inflationary policy can be gauged by price developments in luxury articles and the quotation of the IL on the black market.

Speculative private building and luxury furniture are fairly representative specimen of the former. They had grown up mushroom like in the pre-NEP area under the inducement of enormous profits made possible by the growing volume of excessive purchasing power in the economy. In the two years following the institution of NEP, notwithstanding steep and continuous increases in the general price level and of wage rates, prices of luxury flats and of luxury furniture dropped by between a quarter and a third while the quality of materials used and the skill of labour employed greatly improved. Even this did not prevent a serious slump in economy activity in this realm which generally speaking was more severe in building. (The index of labour-days worked in construction, January 1952 = 100, dropped to 79 in 1952 and to 5

in 1953, — in both cases annual averages.) The reasons for this are not far to seek: on the one hand the slack of excessive purchasing power was taken up by the drop in the real money supply thereby weakening demand on the free speculative markets; on the other hand the resulting de-rationing and de-control in general, made available to the ordinary consumer a much bigger and varied choice of goods and services on the market so that demand was deflected from luxury items. Luxury articles which had expanded under conditions of distorted demand, fell victim to the re-normalization of the demand structure.

Despite the rapid and continuous official devaluation of the national currency in the post-NEP period the black market value of the IL remained remarkably steady. Throughout 1951 the free value of the IL had dropped, — from $ 0.85 in January 1951 to $ 0.45 at the end of the year. In January 1952 the IL stood at $ 0.42. The shock of NEP momentarily forced the rate down to $ 0.36 in February 1952 but it made a good recovery and by December 1952 had regained $ 0.44. The average free market value of the IL for the whole of the year 1952 was $ 0.42 in comparison with an annual average of $ 0.41 for 1953. During the second half of 1953 there seems to have been a recrudescence of some measure of demand inflationary pressure in the economy. Businessmen and shop-keepers reported a better turn-over, profit margins tended to widen and the black market rate of the IL dropped to $ 0.38 in December 1953 and to $ 0.37 in January 1954.

6. *Unemployment:*

The single most dramatic manifestation of change in the economic climate of the country is the emergence of a serious problem of unemployment since NEP. The following table reproduces the official statistics compiled by the labour exchanges. For purposes of comparison we have included the figures for 1951 which are fairly typical for the pre-NEP period, — despite the mass immigration of that time.

The total gainfully occupied population of Israel is estimated at about 550,000 persons. Accordingly an unemployment of even 20,000 yields only a rate of 3.6 % of the labour force which by any standards of comparison is not a very serious matter. But real unemployment in the national economy is much bigger than brought out by the figures of unemployed registered at the labour exchanges. These have to be supplemented by the following categories in order to reach a realistic assessment of the situation:

Firetly, there are at least four groups of unemployed who are not eligible for registration at the labour exchanges, viz: youngsters

in age group 14-18, old people above 55, agricultural settlers and Arabs.

Secondly, there are an unspecified number of unemployed who do not bother to register at the labour exchanges because they consider their prospects of finding employment on their own initiative to be better.

Thirdly, there is a large volume of under-employment in the economy through organized work rotation schemes, short working etc.

Finally, Government and other public institutions provide large-scale public-works schemes for unemployed which are little more than unemployment benefit disbursements in disguise. The Ministry of Labour alone supplied 2,150,000 labour days during 1953. These are usually doled out among the unemployed at the rate of 12 days a month or 144 days a year. This would account for about 15,000 unemployed. Even at a rate of 20 days a month or 240 days a year we are left with 9,000 unemployed.

Table 17:

Daily Average of Unemployed Registered at the Labour Exchanges 1951 — Beginning 1954

MONTH	YEAR			
	1951	1952	1953	1954
January	6,538	6,396	18,900	19,700
February	7,950	6,129	18,950	18,700
March	4,980	6,508	20,700	
April	5,053	5,873	18,300	
May	6,073	7,296	17,000	
June	5,765	8,254	15,850	
July	5,597	10,239	17,600	
August	5,615	10,732	15,650	
September	5,384	10,155	13,300	
October	6,037	10,950	16,100	
November	7,369	14,220	19,650	
December	9,682	16,200	20,150	
Annual Average				
Absolute No.	6,337	9,413	17,680	
Index No.	100	148	279	

The social welfare character of this public works emploment can in a certain measure be divined from the above unemployment statistics.

In March 1953 the official unemployment figures soared past the 20,000 mark and caused a great uproar in the country. There was serious concern that if at the height of the citrus picking season unemployment was so high what would it be like after April-May when the season came to a close and an additional 8,000-12,000 unskilled labourers would be thrown on the labour market. So the

volume of public works was stepped up and the official unemployment figures were forced down to the neighbourhood of 17.000.

September is the season of the high Jewish festivals (New Year and Day of Atonement), and it is considered socialistic, patriotic as well as religious to make a special effort at providing employment to all so as to enable even the Jew in the humblest station to celebrate the holidays in an appropriate festive manner and spirit. Hence during the two months preceeding the holiday season the official unemployment was gradually forced down from 17,600-13,300, while in the two following months as the volume of public works employment fell back to normal the level of unemployment rose steadly and reached 19,650 in November 1953.

It is variously estimated that real unemployment in the economy is two to three times as high as the official registration at the labour exchanges. This brings us to a rate of up to 10 % of the total labour force which is already a much more serious matter, particularly if it is born in mind that there are no unemployment benefits in Israel, and that up to 80 % of the unemployed are new immigrants who have scarcely any reserves of savings or property to fall back on in times of dire physical want. For financial year 1954/55 the Ministry of Labour has officially announced plans to supply some 14 million labour days for 60,000 otherwise unemployed which would yield an annual ration of about 230 labour-days per capita.

It may be asked, if the official figures of labour-exchange unemployment registrations are so unrealistic, why bother at all to reproduce and analyse them here. There are two reasons for this: in the first place there simply is no better official statistical information available on the subject, and secondly, while the absolute total of the figures quoted may safely be discounted, the magnitude of the *relative* movement indicated in all probability catches something of the underlying social reality. Thus the volume of unemployment during 1952 and 1953 was 48 % and 179 % higher than during 1951.

In the succeeding final section of this part an attempt is made to unravel some of the fundamental, predisposing, structural causes responsible for unemployment in the economy. Here I should like briefly to draw attention to some immediate precipitating causes:

Firstly, the unemployed had never *been* employed in the sensc of having been productively absorbed in the national economy All that had happened is that following the discontinuation of large-scale deficit finance (by the issue of Land Bonds), less money was available to finance public-works schemes so that more workers were openly unemployed and unabsorbed.

Secondly, the utterly distorted economic growth during the pre-NEP area which was analysed at some lenght in the first part of this inquiry, had thrown up a profusion of trades, services and occupations for which there never had been any justification of existence, in terms of the objective economic reality of the country. A comparatively limited adjustment of the conditions which had produced that distorted development, i.e. a drop in the inflated volume of domestic demand and a rise in the price of foreign exchange, was sufficient to throw a very significant segment of the economy out of gear. The case of private construction and luxury furniture already alluded to above in a different context, is only the crassest example. It is estimated that to-day about 30 % of the total industrial capacity of the country is not utilized. Some individual firms, it is true, managed to adjust themselves to the new conditions by turning to exports and/or to producing more essential goods for the home market with less foreign exchange outlay, but for the majority this cannot be said.

Finally, and this is far and away the most important single cause, there are the respective developments of the COL index, money supply and wage rates in the economy. During the two years January 1952/54 the nominal money supply expanded by a third while the COL index increased by 89 %, so that the money supply in real terms dropped by 30 %. At the same time nominal wage rates increased not only more than the nominal money supply, but even more than the rise in the COL index. It would have been possible to maintain full employment in the economy in the face of a contraction of the real money supply, provided that real wages too had fallen, i.e. that both money supply and wage rates had dropped in terms of the COL index. It would have been possible to maintain full employment despite a contraction of the money supply relative to wage rates, if the COL index too had dropped in terms of wage rates by a comparable amount (e.g. by the reduction of prices, formerly including enormously inflated profits, to production costs — as actually happened in certain luxury branches noted above, or by an increased flow of presents from abroad or finally as a result of increased productivity at home). But when the money supply contracted both in terms of the COL index *and* of wage rates, it became only a question of time and of relative magnitude until unemployment had to emerge — namely byond the point where the initial excessive purchasing power in the economy had been taken up and, faced with exorbitant yet rigid trade union wage rates, producers cut down production rather than flirt with bankruptcy.

D. *Final Sum-Up and Assessment:*

1. Balance of Payments:

The volume of net capital imports is rightly considered one of the great independant variables in the Israel economy. The vicissitudes of imports and exports can as correctly be defined as one of the principal derived processes of domestic economic developments. But above all else the balance of payments of the State is the final decisive measuring rod of the fortunes of the Israel economy. It is therefore fitting to begin this overall assessment with a review of the balance of payments since the introduction of NEP in early 1952.

The official information released until now on Israels balance of payments during 1952 and 1953 is both provisional and fragmentary. Rather than reproduce all the figures and first estimates here, in the firm knowledge that they will be revised twice over before these lines appear in print, I have confined myself to a consideration of the overall totals from which can be gleaned the net volume of capital imports which after all is our principal interest in this context.

Table 18:

Israel's Balance of Payments, 1952-1953, $ Millions

DESIGNATION	1952		1953		Total 1952-1953	
	Receipts	Payments	Receipts	Payments	Receipts	Payments
Import	—	309.6	—	286.7	—	596.3
Export	43.4	—	59.6	—	103.0	—
Invisibles . . .	* 10.5	* 43.0	17.0	48.0	27.5	91.0
Total	53.9	352.6	76.6	334.7	130.5	687.3
Net Capital Import . . .	298.7		258.1		556.8	

Notes:

* These are estimates based on the average percentage of invisible to visible exports and imports during 1951 and 1953. They worked out at 24.2 % of exports and 13.9 % of imports.

Comparing this table with table 4, above it becomes clear that net capital imports attained their highest point in 1951 with $ 325.6 million. Even though the above table is not accurate in all respects there is no doubt that the volume of capital imports contracted during the following two years, mainly as the result of a drop in

imports. Indeed during 1952 exports actually ran slightly below the 1951 level. During 1953 however exports expanded considerably and touched the $ 60 million mark. This was due mainly to the wholesame effects of dis-inflation at home and of more favourable rates of exchange abroad. Even though, there was a lot of hidden subsidization such as having imported raw materials made available at the IL 1-$ 1 rate of exchange while obtaining IL 1.8-$ for the export proceeds. (This was abolished during the last quarter of 1953.) At the same time most exports did not earn hard foreign currency in cash on a free competitive market but were sold in accordance with commercial clearing account agreements to soft currency in cash in a free competitive market but were sold in amounts only to 60-80 cash American cents. Indeed there are formidable doubts wether certain clearing accounts, soft currency exports, embodying a high hard currency import value, earned the country at all net foreign currency or wether it may not actually have done the opposite. Such an assumed net loss in foreign exchange would be quite compatible with a comfortable margin of profit in IL to the Israel exporter concerned, under the conditions described above. (A disagio on the sale of clearing dollars to the treasury was uniformly fixed at 10 % only. At the time of writing the pressure exerted by industrial exporters on the treasury for the abolition of even this minimal disagio has become well-nigh irresistable.)

But even taking all these foreign trade improvements at their face value there remains a rock bottom annual import volume of $ 300 million and an import surplus of about $ 250 million a year which in the *present economic set-up* seems substantially irreducable in the near future; — failing indeed the drying up of non-autonomous foreign exchange resources, which as things stand today would almost immediately lead to the collapse of the national economy with all the unforseeable and unfathomable economic, social, political and security repercussions that this would inevitably bring in its wake.

Though detailed data on the sources of capital supply have not yet been made public the broad trend is readily discernable. While the Export-Import bank loans and the Sterling balances have been exhausted their places have been taken by the German reparation payments and the so-called Independance Loan.

During the first quarter of 1954 imports at $ 76.6 million are running at a level $ 4.1 million *above* the corresponding period of 1953. However exports at $ 32.8 million are fully $ 9.6 million ahead of last year. This is primarily due to the truly magnificent performance of citrus exports which have totalled 8.2 million boxes

for the 1953/54 season (October through April), which compares with 5.3 million boxes in the season before and only 3.7 million boxes two years ago. The visible trade deficit has therefore fallen by 11.2 %, from $ 49.3 million January-March 1953 to $ 43.8 million during the first three months of 1954.

Still, the increase in the volume of imports is disturbing while the prospects of (industrial) exports, now that the citrus season has ended, are still wrapped in anxious uncertainty.

To complete the picture we have to revert once more to our previous exercise of measuring quantitatively the magnitude of capital imports as percentage of the national income (see table 6. above), and to determine qualitatively the utilization of capital imports in the national economy (see table 7. above).

All the remarks and reservations made in connection with tables 6. and 7. above apply with equal force here.

This time we have to contend with two additional complications, one arising from the official introduction of multi-lateral exchange rates, and the second one concerning the divergence of the "formal" official rates of exchange, on which the foreign trade statistics are based, from the so-called "effective" rates of exchange (please see section B.2. on pages 317-318 above). For the purpose of constructing the compounded rate of exchange I have assumed as the 'official' component in it, the average of the three 'A', 'B' and 'C' rates of exchange while abstracting completely from the special fiscal charges and impositions which have to be added to the average "formal" official rate of exchange to reach the average "effective" official rate of exchange.

According to the calculation of table 19, capital imports during the two years 1952/53 equalled 34.8 % of the national income. The percentage fell during the second year owing to the coincidence of rising national income in IL and falling capital imports in $ which was not completely offset by the drop of the compounded rate of exchange from just over $ 1.00-IL 1.000 to $ 0.77-IL 1.000.

In table 20. one is struck at once by the drop in real terms of the volume of gross investments in 1953, from which, it will be remembered, we obtain net investments by subtracting 25 % on account of depreciation. Gross investments as percentage of the national income dropped from 35.3 % in 1952 to 26.5 % in 1953. While the nominal value of gross investments increased by only 0.4 %, the official COL index records a depreciation of the IL by 28 %, i.e. from 153 points-196 points as the annual average for 1952-1953. Assuming, admittedly it is a large assumption, that the COL index is a representative measure of price changes of capital goods, then it follows that the real volume of gross investments

Table 19:

Capital Import as Percentage of Net National Income, 1952/53

YEAR	National Income IL mills	Capital Imports $ Millions	Rate of Exchange $ rate per IL			According to Compounded Rate of Exchange	
			Official	Free	Compounded (3 + 4 ÷ 2)	National Income in $ (1 × 5)	Cap. Imp. as % of Nat. Inc. (2 as % of 6)
	1	2	3	4	5	6	7
1952	785	298.7	1.60	0.42	1.01	792.8	37.7
1953	1,050	258.1	1.14	0.41	0.77	808.5	31.9
Total or Average . . .	1,835	556.8	1.37	0.41	0.89	1,601.3	34.8

Table 20:

Capital Import Versus Net Investments, 1952/53

YEAR	Gross Investment IL millions	Net Investment IL millions	Capital Imports $ millions	Compounded r/e $ rate per IL	Net Investment $ millions (2 × 4)	Excess of Capital Imports over Net Investment $ millions		Net Investment as % of Capital Import (5 as % of 3)
						Absol. No. (3—5)	% of Cap. Imp. (6 as % of 3)	
	1	2	3	4	5	6	7	8
1952	277.0	207.6	298.7	1.01	209.7	89.0	29.8	70.2
1953	278.0	208.5	258.1	0.77	160.5	97.6	37.8	62.2
Total or Average .	555.0	416.1	556.8	0.89	370.2	186.6	33.5	66.5

dropped by 21.6 %. (This incidentally is another indication of the dis-inflationary turn of events in 1953.) While capital imports also contracted during 1953 they did so at a lesser rate than investments. Hence the excess of capital imports over net investments reached nearly $ 100 million or 37.8 % of all capital imports. Less than two-thirds of capital imports were utilized for new capital creation over and above the replacement of worn-out capital. The average for the whole two-year period is slightly better.

An alternative calculation not based on the free rate of exchange as was done in part one, but merely using the official "effective" rate of exchange as the 'official' component for arriving at the operative compounded rate of exchange, yields altogether different results: capital imports come to 53.8 % of the national income for the two year period, the excess of capital imports over net investments reach $ 317.6 million and only 43.0 % of capital imports are invested while the remaining 57 % went in one way or another to buttress the current standard of living of the community. I believe this second calculation to be much more realistic than the first one; it probably comes very close to the truth of the matter. If I nonetheless decided to use the official "formal" rates of exchange for the above tables it is mainly due to an attempt to facilitate comparison with tables 6. and 7. concerning the same macro-economic phenomena in the pre-NEP area, by maintaining a similarly unrealistic relationship between official and free rates of exchange in the compounded operative rate of exchange. (The official "formal" rate of exchange used gives the IL a value 380 % in excess of the free rate during 1952 and 278 % for 1953.) Such "inter-period" comparison shows that while on the whole capital imports as percentage of the national income are smaller in the post-NEP period, more of it was invested in the pre-NEP area. (The quality of that investment, i.e. wether productive or otherwise is quite a different kettle of fish. It is very probable that the utilization of capital imports for all kinds of non-productive investments in the pre-NEP area explains the insignificant unemployment during that period despite mass immigration.)

2. *Distortions in the Price Mechanism:*

In the second half of part one I defined and analysed the basic anomalies in the Israel economy in terms of two principal distortions in the price mechanism: one internal, the relationship between effective demand and available supply at the ruling level of domestic prices inflation, and the second one external, the relationship between effective demand and available supply of foreign currency at the official rate of exchange of the IL.

supply of foreign currency at the official rate of exchange of the IL.

We must now briefly consider the impact of NEP on these two basic distortions: were they eliminated, weakened, aggravated, or were they replaced by other distortions elsewhere?

a. The Internal Distortion, — in much of modern economic literature inflation is talked about as in the nature of a pretty homogeneous phenomenon. It is commonly defined as an excess of effective demand over available supply according to a given level of prices which causes by way of rectification an appropriate rise in the price level to reestablish the disturbed equilibrium position. I do not know how useful this kind of definition is elsewhere when coming to grips with a concrete economic situation. I am sure it is not very helpful in Israel. Looking at our local species, or should I say virus, through an analytical microscope as it were, it is amazing into just how many different varieties and facets the erstwhile unitary concept of inflation dissolves itself and how careful one must be to classify them all correctly in order to prevent making very serious mistakes in analysis.

The pre-NEP area is a classical example of suppressed demand inflation. The inflationary pressure derived from the rapidly growing effective demand in the economy as measured by the expansion of the money supply to the public. This pressure was not permitted to vent itself in rising prices but was bottled up, with diminishing success, in the caskets of price controls and administrative rationing.

During the post-NEP area these physical controls were gradually adjusted, lifted and relaxed to permit the price level, including the official price of the $, to fulfil its pre-eminent function of equilibrating effective demand to available supplies. People are often confused and confounded by the fact that the process of rapidly rising prices through 1952 should have been termed and welcomed by economists as dis-inflationary. But this of co"rse is just what it did amount to. The chronological origin of the demand inflation, if I may be permitted this clumsy phrase, and hence the *accomplished* depreciation of the real purchasing power of the IL, must be traced back to the pre-NEP area. All that really happened in the first phase of the post-NEP area was that the frustrated inflationary pressure, bequeathed by a former period, was permitted to manifest itself openly and to work itself out in a rapidly rising price level as a result of, as it were, officially "releasing" the hitherto (officially) suppressed inflation. The process was dis-inflationary in two related senses: firstly, by allowing the price level to rise the demand inflationary pressure on supplies on the market was pari passu lessened, and secondly, by not permitting the money supply to expand

at a rate commensurate with or faster than the increase in the price level, the initial pressure-head of demand could not be maintained.

So far so good. But then an astonishing thing happened from the point of view of the recipe of classical economics for such situations. By virtue of the operation of powerful institutional devices firmly entrenched in the socio-economic structure of the country, the most significant of which are the automatic COL allowance for wage and salary earners and cost plus to businessmen, the level of per capita real incomes was bye and large maintained by increases in nominal incomes equal to the rise in the price level. In the face of a rapidly shrinking volume of money supply in real terms this could not but result in the unemployment of men and resources. And this in turn could not but lead either to the collapse of the Histadruth wage structure based on COL allowances, or else to Governmental intervention to increase the money supply in order to augment employment and economic activity. In the event, over the last two years there has developed an inverted black market in labour-power which has tended to disintegrate the Histadruth wage structure at its fringes, particularly so among new immigrants who offer themselves at sub-standard wages. This has found official expression (the grey market) in the so-called "emergency" public works schemes to alleviate unemployment where workers are paid only between one-half to two-thirds of the standard union rate. At the other extreme, the incidence of a real black market in labour power i.e. of super-Histadruth wage rates, which used to be widespread in the pre-NEP area, has almost completely disappeared.

But all this did not amount to much and the real action to improve the employment position came from Government in the form of increasing the money supply. This is clearly brought out by the fact that since mid-1952 the money supply has increased apace with the price level and that since mid-1953 the money supply has even shown first bashful signs of outpacing the increase in the price level.

There are broadly speaking two schools of thought to-day in Israel on the question of inflation: there are those who maintain that the *demand* inflation of former days in which prices were pushed up has been supplanted by a *cost* inflation in which prices are pulled up; in other words prices rise to-day because (labour) costs increased yesterday, and costs will increase to-morrow (via the COL allowance mechanism) because prices rose to-day, and so ad infinitum. The second school of thought argues that the truly dis-inflatiionary movement of the immediate post-NEP area was never allowed to go far enough but was stopped half-way in its tracks in mid-1952 by the appearance of serious unemployment,

owing to the stickiness of *real* incomes, which forced Government to expand the money supply. This has gone on ever since in a see-saw movement of alternating phases in which periods of greater money supply expansion and more employment succeed periods of smaller money supply expansion and less employment. The net result is that the dis-inflationary movement was never completed and that a residual amount of demand inflationary pressure has been maintained throughout the whole time.

May be the best way to describe the situation in Israel to-day is as follows: At the centre is the unquestionable fact which permits of no argument, of the continuous rise in the level of prices as measured by the COL index. This we may call the existence of price inflation. By virtue of the automatic COL allowance mechanism the rise of prices is conveyed to a corresponding increase of wages and salaries. This we may term income inflation. What are wage and salary incomes to employees, are production cost outlays to producers. Hence the income inflation of the former becomes the cost inflation of the latter. Coinciding with a contraction of the money supply in real terms, the cost inflation generates unemployment. To increase the volume of employment in the face of rigid wage rates, — rigid it should be remembered not only in the sense that wages won't go down with the growth of unemployment, but that they cannot be prevented from going up in accordance with the price level, — Government is forced sooner or later, in one way or another, to inject additional increments of money supply into the lagging arteries of the economy. This ultimately results in some measure of renewed demand inflationary pressure which in turn provides the impetus for another bout of price inflation. *)

It may be instructive to pause for a moment at this juncture, to consider the impact of various methods of dealing with an inflationary process, on the size and distribution of the national income.

Let us begin with the case of an open demand inflation. In comparison with an assumed previous base situation of full employment equilibrium (which may also be called 'Flation'), there will take place a redistribution of the national income in favour of the owning classes and at the expense of the working classes. The extent of this shift-over in the national income will depend, among others, on the bargaining strenght of the employees, the amount of inflation, the existence of and progression in income taxation, the

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*) On the distinction between demand inflation and cost inflation and its significance for the current situation in Israel I am greately indebted to Professor A. P. Lerner — though I am sure he would want me to add that the responsibility for any views expressed here is my own alone.

efficiency of income tax and other direct tax collections, the re-distributional incidence of the Government budget etc.

Now the authorities take steps to suppress the inflationary pressure by price controls, rationing and other means. Let us first assume that the policy is efficiently executed. The national income will tend to drop while the share of the working classes in it will tend to increase. By giving the workers a bigger slice of a smaller cake they can be assumed just about to manage to maintain their real standards of consumption in comparison with the base situation.

The next variant which suggest itself is an inefficient, suppressed inflation policy execution, one which is shot-through in real life with black and grey markets, free luxury markets and unimpeded, if unofficial, capital flight. The results supervening will be similar to the case of open inflation with these two important differences: firstly, the redistribution of the national income in favour of the owning classes will not be mitigated or countered by the re-redistributional effects of progressive income taxation and other fiscal devices, because the huge speculative profits made on the black market or in foreign valuta operations do not officially exist and therefore cannot be taxed. Hence the net redistribution of the national income in favour of the propertied classes will correspondingly be more farreaching than in an open inflation. And secondly, there will take place an additional redistribution of the national income *within* the owning classes, in favour of dishonest, speculative elements and at the expense of honest and productive elements.

Finally we postulate the case of rising prices, at the side of a shrinking real supply of money, this may be called an "opened" inflation, to take place in a society in which powerful institutional mechanisms prevent the reduction of real incomes of wage and salary earners. Here too there will be a double shift-over in the distribution of the national income, once in favour of the working classes and away from the propertied class, as profit margins of the latter get squeezed, and secondly *within* the working classes, in favour of a privileged caste of securely employed and at the expense of the non-privileged unemployed, underemployed, emergency employed etc. Owing to the emergence of unemployment on a large scale the size of the national income will tend to drop and the effort to secure for the securely employed, privileged workers the same *real* slice of a shrinking cake will tend further to aggravate unemployment.

The last two variants define fairly accurately the main social results of Israels economic policies in the pre-NEP and post-NEP periods respectively:

The policy of inefficient suppressed inflation pursued by the political wing of the labour movement in the pre-NEP area was directely responsible for the sickening enrichment of the most repulsive, parasitical, criminal and unproductive elements in the Israel society. And the wage policy pursued by the trade union branch of the labour movement in the post-NEP area is responsible to this day for condemning tens of thousend of new immigrants to enforced idleness, under-employment, acute want and near starvation, in an effort to maintain, and possibly to improve, the real standard of consumption of the old-time, so-called class conscious, professedly idealistic workers.

b. The External Distortion, — viewed in its widest perspective it is a correct surmise to make that the relationship between the demand and supply of foreign exchange at the official price of the IL, has become less distored and less anomalous since the inauguration of NEP. This can be traced and measured by the diminishing margin between the official and the free market rates of exchange:

Table 21:

The Relation Between Official and Free Rates of Exchange of the IL, 1952/53

Year	Rates of Exchange, $ for IL			Official Rates of Exchange as % of free R/E	
	Official 'formal'	Official 'effective'	Free Market	Official 'formal'	Official 'effective'
1952 .	1.60	0.87*	0.42	381	207
1953 .	1.14	0.62	0.41	278	151

* Estimated

The trend of contraction between the official average rates of exchange, both formal and effective, and the black market rate is unmistakable, particular if it is compared with 1951 when the then unitary rate of $ 2.80-IL 1.0 was 430 % of the black market rate. Also remarkable is the reversal of trend. While right up to the eve of NEP the gulf between the official and black market values of the IL widened all the time, since NEP it has consistently diminished (please see foot-note to table 6. above). The explanation is obvious. Until NEP the official rate of exchange was fixed while the free value of the IL continuously depreciated. Since NEP the official rates of exchange have undergone a process of continuous and in sum farreaching devaluation while the free market value of the IL has remained comparatively stationary.

But while the quantitative magnitude of the overall average external distortion has tended to decrease, the institution of an official multi-lateral exchange rate structure has been responsible for the growth of a whole new crop of distortions whose potential harm to the national economy is incalculable. I have already alluded to the possibility of exports, which though they may earn the individual exporters concerned a handsome profit in IL, yet result in a net loss of foreign currency to the country, because imports and exports are calculated at different rates of exchange. Here is another typical example: The original NEP program fixed the lowest 'A' rate of exchange for essential food imports and the highest 'C' rate of exchange for imported capital goods, — among others for the equipment with which to raise those food crops in the country. The former measure commends itself from the point of view of social equity, the latter is praiseworthy from the point of view of input factor combination, i.e. making imported captal equipment dearer in terms of domestic labour power. While in the subsequent process of creeping devaluation the *absolute* level of the exchange rates changed, their *relative* distance was roughly maintained — at least until the latest develoment of bringing all imports to the IL 1.8-$ 1.00 rate of exchange. Both of the above policy measures were good in themselves when regarder in isolation. But considered in conjunction as co-existing in the same economy at the same time, it is not difficult to see that they amounted to an enormous subsidy on the import of essential foods as against their production at home. So far from bettering the terms of input factor combination in the processes of wheat, sugar, meat, edible fats etc. production, their ultimate effect was to discourage domestic production altogether — whatever the factor combination. Fortunately, owing to the time span involved, i.e. less than two years, and for a number of other less obvious reasons, the harm done by *this particular* additional distortion was more potential than actual.

Yet all the aforegone is only part of the story. We must now examine another, more specific but all-important, facet of the external distortion.

At the beginning of this inquiry on page one above, I defined the central problem of the Israel economy as the anomalous relationship subsisting between the price of a unit of labour-power within (wage-rate) and the official price of the IL abroad (rate of exchange). It is now possible to go one step further and define the automatic COL allowance as an institutional device which is expressly designed to perpetuate forever this fundamental distortion in the Israel economy, come what may. Every devaluation of the

IL by forcing up the domestic price level, automatically drives up nominal wage rates by a corresponding amount, via the COL allowance mechanism, and therefore brings us back bye and large to the former distorted relationship just at a higher turn of the spiral. This process is partly reflected in tables 12, 13 and 14 which trace the development of the COL index, COL allowances and wage rates since NEP. If it were not for the total dependance of the Israel economy on current imports, it would be possible by devaluation to adjust this fundamental distortion over a period of time, despite the existence of the automatic COL allowance. Reversely, if it were not for the existence of the automatic COL allowance it would once more be possible by devaluation to effect a suitable adjustment between wage rates and exchange rates, despite the economy's total dependance on a flow of current imports. However where both of these conditions obtain concurrently, i.e. total dependance on current imports *and* the automatic COL allowance mechanism there is no hope at all of effecting the kind of farreaching readjustment between wages and exchange rates which in turn is an indispensable prerequisite for the rational reform of the Israel economy and for the attainment of that economic independance which is the professed aim of all political and quasi-political bodies in Israel.

It may be argued as against this that if we take the average daily wage of IL 6.277 for January 1954 and divide it by the rate of exchange of IL 1.800-$ 1.00 we only get a daily wage of about $ 3.5 which is a far cry from the $ 9 for a day work which we found on the eve of NEP.

There are a great many replies to this argument the most important of which are summarized below:

1. At a rate of $ 3:5 a day wages in Israel are roughly comparable to average wage earnings in Great Britain calculated in the same way. And assuming once more, sanguinely, that average productivity of labour in Israel is not less than 50 % of average British labour productivity, then on the basis of this calculation, i.e. abstracting from terms of trade, comparative cost ratios etc., Israeli exports are still twice as dear as British exports and therefore hopelessly uncompetitive. It should furthermore be born in mind that the IL 6.277 wage level is an overall average rate inclusive of the wages of youth apprentices, char-women, women operatives etc., in industry. The wages of male, adult industrial workers who are paid on a daily basis (the lowest paid category of male adult workers), stood in January 1954 at IL 7.150 (that of female adult workers was IL 4.900 at the same time).
2. But in fact it is quite unrealistic if not downright meaningless

to base any economic conclusions on the above arithmetical exercise, simply because the nominal wage of IL 6.277 a day for January 1954 does not correspond to a unitary rate of exchange of IL 1.8-$ 1.0 for all imports.

3. The above IL 6.277 wage for January is based on the COL index position of 208 points for November 1953. Since then the COL allowance has been revised in mid-March 1954 in accordance with the February index level of 216 points and the end is not yet in sight.

4. Next it must be remembered that imports of fuel, essential foodstuffs and medical supplies, which have an aggregate high weighting in the COL index, are still being imported at 'effective' rates of exchange appreciably below the IL 1.8-$ 1 level. It has been calculated that transfer of these goods to the IL 1.8-$ 1.0 rate of exchange will raise the index by between 15-20 points.

5. Then there is a considerable back-log of delayed price increases which will in due course be passed on to the index, over and above the removal of the lower 'effective' rates of exchange and new inflationary pressure. The most prominent of these is the recent upward revision of controlled rents by an average of about 100 % which is expected to raise the index by 4-5 points. Even the finance minister in his budget speech assumed the COL index to rise by 20 points during 1954 notwithstanding the subsidies on essential imports provided in his 1954/55 budget.

6. Finally on the side of wage rates we have to take into account the so-called "social conditions or payments", including among others, employers contributions to workers sick funds, pension funds and rest homes, paid holidays, dismissal pay etc., etc. This amounts to 25 %-40 % of the cash wage (varying between different industries) and has to be *added* to cash wages in order to arrive at the total cost of labour-power to employers.

7. What all this boils down to is that on the basis of available facts we cannot to-day accurately establish the average wage rate in $, because on the one hand we do not know the average total cost of labour power in the economy, i.e. cash wage plus social conditions, and on the other hand we do not know the average weighted rate of exchange of all imports which corresponds to that wage. It is however possible with the available bits of information to construct approximately what the average wage for Israel labour-power would be like according to a uniform rate of exchange of IL 1.800-$ 1.00.

There are two differences between the minimum and maximum calculations in table 22: the minimum calculation is based on a COL allowance value of IL 0.800 per point of COL index which corresponds roughly to a gross wage of IL 163.000 at an index level

of 208 points (November 1953); the maximum calculation is based on a COL allowance value of IL 1.000 which seems to me more realistic even though it does not square with the given gross wage of IL 163 monthly. Secondly, in items 5. and 7. I took 15 points and 25 % respectively for the minimum calculation and 20 points and 40 % for the maximum calculation.

Table 22:

Calculated $ Wage at Uniform Rate of Exchange of IL 1.800 — $ 1.00 for All Imports

DESIGNATION	Calculated Total Wage Cost	
	Minimum	Maximum
	IL	IL
1. Daily average cash wage (both sexes, all ages) Jan. 1954	6.277	6.277
2. On monthly basis (26 days)	163.202	163.202
3. Eight point increase COL index, Nov. 1953-Febr. 1954	6.400	8.000
4. Expected 20-point increase in index during 1954 on basis of current rate of exchange, consumers subsidization	16.000	20.000
5. Expected 15-20 point increase in index on bringing all imports to IL 1.8-$ 1 rate	12.000	20.000
6. Total, 2-5	197.602	211.202
7. Additional 25 %-40 % social payments	49.400	84.480
8. **Grand Total, 6 + 7**	247.002	295.682
9. $ wage (8 ÷ 1.800)	$ 137.22	$ 164.26
10. Daily basis (9 ÷ 26)	$ 5.28	$ 6.32

To show how conservative even the above maximum calculation is, it may be compared with the results of a thorough quasi-Governmental inquiry into the baking industry details of which have just been released to the press. It transpires that average total wages paid in the bakeries, according to the February 1954 index level of 216, come to no less than IL 330 monthly, inclusive of social conditions which amount to 33 % of the total. This is $ 7.05 a day at the rate of exchange of IL 1.800-$ 1.0. If we now assume that transfer of all imports to the IL 1.8-$ 1.0 will ultimately raise the index by altogether another 35 points (items 4. and 5. in table 22. above), then the equivalent additional COL allowance at the applicable maximum value of IL 1.250 per point comes to IL 43.750, and gross wages to IL 373.750 per month or $ 8.00 a day.

It is fair therefore to conclude that the official devaluation of the IL by 80 %, from IL 2.8-$ 1.0 to IL 0.55-$ 1.0, has succeeded to

adjust wage rates to the operative rate of exchange by only a minimal degree.

We are now in a position to sum up the overall impact of NEP on the two great distortions in the price mechanism which so much bedevilled economic developments in the pre-NEP area. The reduction of the money supply in real terms, aided(!), this is often conveniently forgotten, — by the continuation of net capital imports at a very high level indeed, succeeded to eliminate substantially the excessive purchasing power in the economy. This has gone a long way to reestablish some kind of internal equilibrium between effective demand and available supplies on the domestic market. Allied to an official devaluation of the IL by 80 % of its former value, the same process has reduced the quantitative magnitude of the external distortion in the sense of the excess of demand for foreign exchange over its supply at the official price of the IL, as measured by the diminishing margin between the official and the free value of the IL. The maintenance however of a multi-lateral exchange rate structure has introduced qualitatively new dimensions into the fabric of the external distortion. In this connection Government's decision to bring all foreign exchange transactions back to a unitary rate of exchange, this time at a level of IL 1.8-$ 1.0, deserves to be welcomed. Owing to the stickiness of *real* wages, the approximate internal demand-supply equilibrium has given rise to serious unemployment, while the rapproachment to an equilibrium rate of exchange of the IL, which is the key to the external distortion, has for the same reason done woefully little to adjust the price of labour power within (wage) to the price of the IL without (rate of exchange) and has therefore been completely inadequate to improve the prospects of Israel exports, — which in turn is the key to Israel economic independance. Unemployment at one extreme and the preservation for all intents and purposes of conditions precluding serious and successful export drives at the other, mutually react upon and reinforce each other. Unemployment, by cutting down the total level of economic activity and of production leaves less available for foreign markets, while the prevailing unfavourable export conditions prevent unemployd Israel labour-power from being absorbed in export industries, — which one might be forgiven for thinking is the proper way to cure unemployment in a country that maintains an excess of imports over exports, of all types, as vast and as precarious as does Israel.

3. *Two Basic Dilemmas:*

To-day, two and a quarter years after the inauguration of NEP, the national economy is still honey-combed with internal incon-

sistencies, contradictions and distortions, shot-through with disequilibrae, paradoxes and dilemmas. Two of them will be briefly discussed below. Their elimination may be considered a *necessary* though by no means a *suffient* condition for the rehabilitation of the Israel economy and the attainment of economic independance in the foreseeable future.

a. The First Dilemma, — the combination of COL index plus COL allowance adds up to an institutional device which guarantees wage and salary earners a certain minimum real level of consumption which exceeds by far their contribution as productive agents to the community-chest of goods and services. The resulting frantic attemps to sqeeze a quart of beer out of a pint of water, to want to consume that which has never been produced (at home), can only lead to one, or a combination, of the following three alternatives:

Galloping Inflation — as the result of a futile mutually interacting double race, on one hand between prices and money wages to maintain real wages, and on the other hand between the volume of money supply and the magnitude of unemployment to maintain full employment;

Mass Unemployment — as the logical outcome of placing a lid on the expansion of the money supply in the face of rising prices and wage levels;

Consumption of National Capital — as the inevitable result of the attempt to maintain tolerably full employment and *real* consumption levels *without* inflation, by the wholesale diversion of capital imports for current consumption.

Since NEP we have had a combination of all these alternatives operating concurrently in the national economy, featuring fair doses of inflation and unemployment in conjunction with a rather more than fair diversion of capital imports from productive investment to current consumption.

However we may turn and twist our economic selves there is no escape from the vice-like embrace of the current COL index-allowance mechanism wich is veritably choking the life out of the national economy.

b. The Second Dilemma, — at various points of the aforegone analysis I have explicitly postulated the co-existence of unemployment *and* some measure of demand inflationary pressure in the economy. On the face of it this looks like a contradiction in terms; for if effective demand outstrips available supplies on the market according to a prevailing level of prices, then why not get hold of the unemployed resources and put them to work producing additional goods and services under conditions of rising prices in a

sellers market, in order to slake the existing surplus effective demand? Why not indeed?

I should like to start off by establishing the theoretical possibility of such a thing happening in an economy like Israel, by giving a crass, though by no means unlikely, example: suppose, all other things being equal, that the volume of net annual capital import drops by $ 100 million. There will now $ 100 million worth less of goods and services supplied to the local market against which no current domestic incomes are generated. The resulting contraction on the supply side will release strong demand inflationary pressure in the economy. At the same time paucity of foreign exchange resources will create unemployment and indeed creeping paralysis throughout all branches of the economy which depend on imported input components that can no longer be supplied in quantities adequate to keep production going at full blast, i.e. cotton and high-count yarns in the textile industry, metals in engineering, iron and wood for construction, and may be even, heaven forbid, fuel oil to generate electricity on which irrigated agriculture and indeed the entire economy depends. Hence there will be the co-existence of demand inflation with mass unemployment. The inflationary pressure will be reinforced as inevitably Government expands the money supply to alleviate unemployment, while unemployment will become more severe all the time because not only will money wages not fall but every additional increment of inflationary pressure due to falling net capital imports and/or rising money supply, will raise the COL index and thence money wages by the operation of the automatic COL allowance. Here we are afforded a glimpse of the bleak fate that awaits the economy, State and people of Israel if capital imports dry up before the economy has been put on a rational and healthy basis. Yet putting the necessary reforms off until the inevitable cataclysm overtakes us means jeapordising our very existence and may well turn out to be too late.

The co-existence to-day of demand inflation and unemployment is in the main due to other causes; it is a symptom on the surface of our economic life the roots of which connect up with one of the most basic, structural disequilibrae inhering in the Israel economy to-day.

There are three principal ingredient in the sitiation, viz. the available stock of capital equipment and its distribution in the economy, the level of money wages maintained by Histadruth, and the supply of labour-power on the market seeking employment.

During the pre-NEP area a great amount of modern, up-to date, labour-saving equipment was pumpted into the country. The combined effect of ultra-cheap dollar rates and the operation of ex-

change control brought about the heaping or piling up of this imported capital equipment in certain strictly delimited areas of the economy while leaving huge sectors completely denuded of modern equipment. (This process was analysed in the secon half of part one, please see section B.2. on page 24 above.)

The level of money wages maintained by Histadruth is such that it permits of profitable employment in the economy only in conjunction with a high degree of investment intensity, i.e. modern, labour-saving equipment.

The supply of labour-power in the economy, owing to the mass immigration of the first four years of the State which more than doubled the Jewish population of the country, is such that there just is not enough capital equipment around in the economy to be mixed' with the available labour-power, in order to provide full employment at that high rate of capital equipment per unit of labour-power employed which, owing to the level and the rigidity of wage rates maintained by Histadruth, is dictated by considerations of economic worthwhileness.

Hence we are left with a residual, stagnant pool of unemployed (new-immigrant) labour-power which according to the existing conditions just set out simply cannot be absorbed productively into the national economy.

To keep this residual labour-force and their dependants alive Government has to maintain them which it usually does by providing huge public-works schemes, or by other unemployment benefits in disguise. The finance of these benefit schemes, whether by a straigh-forward budget deficit, or through excessive borrowing from the banks, gives rise to demand inflationary pressure in the economy. This of course will push prices up and raise Histadruth wages via the COL allowance, which in turn will throw additional workers out of productive employment so that the original dose of employment-creating public works largely defeats itself and has to be followed up by a second and bigger dose which will release the same circular movement all over again.

Let us take the average, adult, male cash wage of IL 7.150 a day for January 1954. Let us suppose that to make this outlay on wages economically worthwhile a worker has to produce at least 100 units of output. This is possible only with the help of, say 5 h.p. of machinery at his elbows. Working with his hands or with primitive, antiquated tools a worker can turn out only 10-20 units of output a day. The above daily wage fixed by Histadruth is inflexible. Then it follows that the pool of labour-power on the market seeking employment which is in excess of the available pool of modern up-to-date capital equipment at the ratio of 5 h.p. per

capita, is condemned to unemployment. To the extent that the price of the product in question is raised and/or lower, 'inverted' black market wages are accepted, it becomes possible to employ some more workers who have hitherto just been at the margin. But with the existence of the present COL allowance mechanism not even strong open demand inflation is likely to eliminate all unemployment because the resulting price rises will raise wages and so annul the effect on employment. This is of course a grossly oversimplified and probably exaggerated illustration but it serves its purpose well to bring out what I am aiming at.

It should be possible, after careful study and appraisal of all the quantities involved, to calculate the amount of demand inflation *and* unemployment in the economy at any one time, by reference to the point of intersection between the following magnitudes:

1. The level of money wages maintained by Histadruth in relation to price level and money supply;
2. The supply of labour-power on the market;
3. The availability of (imported) capital equipment in the economy;
4. The marginal product of hand labour;
5. The volume of public works finance (and its sources);
6. The volume and utilization of net capital imports.

It is perhaps not too difficult to see that in these given circumstances is is possible to maintain a tolerable level of employment only under two conditions: suppressed inflation, or the dissipation of capital imports for consumption. The former, because only under suppressed inflation is it possible to keep the level of wages and prices officially low enough and the supply of money high enough to give everyone work (productive and unproductive); and the latter on the assumption that the market can be flooded and saturated with consumption goods adequate for the purpose, not only of immobilising the COL allowance to begin with but also of absorbing, or of offsetting on the supply side, increases of effective demand brought about by the expansion of the money supply necessary for full employment. The former solution was tried in the pre-NEP area; analysis of its disastrous failure was the object of inquiry of the first part of this essay. The latter solution, namely current consumption of capital imports, has at all periods since State creation been pushed to morally indefensible and economically foolhardy limits. As a complete solution it is hardly topical anymore even for a comparatively short period of two to three years, because of the uncertainties in which the future of capital

imports, it sources, volume etc. are shrouded — though it is most noteworthy that a proposal to this end has been seriously and publicly canvassed at cabinet level as late as the fall of 1953.

Throughout this inquiry I have strictly confined myself to questions of economic diagnosis to the total exclusion of issues of economic therapy, which naturally arise out of the former. This limitation of subject matter has been achieved not without a considerable exertion of will! Still I have made no bones about my conviction that without the effective immobilization of the automatic COL allowance mechanism *the way it is currently being operated* (I adopt this formulation to underline that for reasons of social and political expediency there is no need to abolish the device altogether), we cannot effect the required adjustment between wages within and exchange rates without, which is the key to the rational and healthy reorganisation of the national economy and hence to the attainment ever of true national economic independance. I have consistently advocated this view since 1949 when I first became associated in a professional manner with the problems and fortunes of the Israel economy, — though I have of course not always seen the issues in the same clear light as I do to-day. I am afraid I have made preciously little head-way through all these years in putting my views across though it is perhaps not an exaggeration to claim that by mid-1954 the awareness of the existence of such a problem is beginning to impinge itself on the minds, if not of responsible people, then at least of people occupying positions of responsibility in the country.

So far Histadruth, the trade union wing of the Israel labour movement and in its power position visavis the State far and away the strongest trade union organisation in the world, has uncompromisingly resisted all attempts at reform of the COL allowance, by hinting darkly about the existence of a nefarious conspiracy to slash the living standards of the working masses. This question of living standards and COL allowances merits a little elucidation.

Is it conceivable to more than double the (Jewish) population of the country, involving some three quarters of a million souls, within four years without reducing the average standard of living of the community, particularly if the country is as small and poorly endowed by nature as Israel — notwithstanding the huge parallel availability (from departed Arabs) and influx (from abroad) of capital into the country? Is it not much more realistic to pose the true alternatives for such a community in terms of: investing available capital resources to facilitate the productive integration of the new population into the economy so that the country may ulti-

mately stand on its own economic feet, in anticipation of the inevitable day when capital imports will begin to give out; or largely dissipating that capital on current consumption to maintain the pretence, if not the reality, of stable living standards, to be followed by the complete collapse of those living standards (and not only of living standards!) as and when capital imports dry up?!

Assuming the virtual cessation of capital imports in the foreseeable future to be inevitable (surely a realistic assumption), it simply is not true to claim that reform of the COL allowance, among others, will lower average living standards of the community, when viewing the situation from the temporal perspective of, say, the next 8-12 years. Surely the aim is by reducing living standards *now* by a tolerable and bearable margin, to divert resources from current consumption to productive investments, in order to forestall the otherwise inevitable, intolerable and unbearable very sharp drop in living standards in the *not so distant future*. Seen in that light and over that period, as certainly every responsible statesman ought to see it, the equitable reform of our national economic life of which the COL allowance is only a first instalment, however painful and unpleasant its first impact, will *raise* the average and temporally overall standard of living of the community, — this is true by the simple test of marginal utility and from a host of other points of view as well.

Finally it is pertinent to inquire, against the background of the whole foregone analysis, *whose* standard of living will even initially be adversely affected by the effective immobilization of present COL allowances? That of the tens of thousands currently unemployed, underemployed, emergency employed etc., new immigrants? Assuming it to be necessary to cut real trade union rates by an initial amount of a quarter to a third in order to achieve full (productive) employment in the economy (this is in all probability an exaggeration but I am deliberately taking the extreme view), than any child can work out the simple arithmetics that the present, public-works, emergency-employed new-immigrant worker, getting his 12-20 labour days a month at one-half to two-thirds of Histadruth rates (let alone the now completely unemployed), will most certainly *gain* by the change in terms of his living standards, as well as in other respects — morally for instance. What is necessary however is for the older immigrant workers, who constitute the real backbone and nucleous of the labour movement, to suffer a small present diminution of their real living standards, to enable their new immigrant class brethren to live like self-respecting, dignified human beings.

If it were just that Histadruth, by virtue of its unique power

position, was exacting excessive demands for the working class and thereby placing into jeopardy the healthy development of the economy and the physical survival of the State, then the situation would already be desperately grave. But the reality is even worse. For Histadruth, as the whole preceeding, laborious, seventy-odd page analysis goes to show, has long since ceased to represent the true economic interests of *all* the working people of the country.

This, in the final analysis, is the real indictment of the Israel labour movement since the creation of the State.

LA NOUVELLE POLITIQUE ECONOMIQUE D'ISRAEL (NEP):

PAR SAAKI ERETZ AHUVA

RÉSUMÉ

Antécédents

Le tournant du développement économique d'Israël depuis le rétablissement de l'Etat hébraïque en mai 1948 est l'avènement de la nouvelle politique économique (NEP) au début de 1952.

En 1948-1951 la population juive du pays a augmenté en gros de 760.000 âmes ou 118 %; principalement par immigration; les salaires nominaux ont doublé; la monnaie à la disposition du public a augmenté de 3.1 %, tandis que le taux effectif du change officiel est demeuré inchangé à l'exception d'une dévaluation de 6 % en septembre 1949, soit $ 3.00- pour 1.000 LI (livre israélienne) à $ 2.80 pour 1.000 LI.

Cette évolution a conduit au dilemme économique de base pour Israël, à savoir: le rapport anormal subsistant entre le coût de la main d'oeuvre à l'intérieur (salaires) et le prix officiel de la LI au dehors (taux de change). Suivant le taux officiel du change les salaires moyens en Israël à la fin de 1951 s'élevaient à environ $ 9.00 par jour contre $ 3.00 dans le Royaume-Uni, tandis que la productivité du travail en Israël peut être estimée à 50 % de ce qu'elle est en Grande-Bretagne.

Dans ces conditions, l'économie n'a évité la faillite que par des importations massives de capitaux. La balance des paiements du pays montre que pendant les trois années 1949/51 le total des paiements pour biens et services s'est élevé à $ 967 millions, tandis que les recettes ont atteint $ 145 millions seulement. En conséquence, l'importation nette de capitaux s'est élevé à $ 822 millions. Calculées suivant un taux de change réel, les importations de capitaux représentent en moyenne 37 % du revenu national; la comparaison avec les investissements nets intérieurs montre qu'en moyenne seuls 70 % des capitaux étaient investis, ce qui aboutit à une désépargne de $ 250 millions durant cette période triennale.

En dépit de ces importations massives de capitaux le taux de change de la LI sur le marché libre ou noir est tombé à 1/6 de sa valeur officielle, tandis que le déficit croissant des budgets de développement et de la défense nationale a créé dans l'économie une forte pression inflationniste.

Le gouvernement a cherché à la combattre par les armes traditionnelles contre l'inflation: le contrôle des prix et le rationnement par voie administrative de tous les biens peu abondants. L'index

officiel du coût de la vie (COL), avec, août 1939 = 100 comme base, fut ramené par une action uniquement administrative d'un sommet de 370 points en mars 1949 à un niveau minimum de 317 en juin 1950. Par après, il a lentement remonté vers son niveau précédent, atteignant 358 points en septembre 1951. La valeur *réelle* de la circulation monétaire s'est donc accrue davantage que sa valeur nominale. A la même époque rien de sérieux ne fut entrepris pour neutraliser le pouvoir d'achat excessif mis ainsi entre les mains du public.

L'incidence de ces facteurs sur l'économie nationale peut avantageusement être exposée dans les deux rubriques que voici:

I. L'altération des prix à l'intérieur, entraînant une demande dépassant de loin les produits disponibles sur le marché à un prix réglementé et contrôlé. En conséquence, la pression grandissante du pouvoir d'achat se manifeste sous une des quatre formes suivantes:

1° en décourageant le travail, l'effort et l'épargne, en détruisant donc l'émulation qui est à la base de l'économie.

2° par la consolidation d'un marché noir généralisé, en détruisant donc le fondement moral de la société.

3° par le transfert des ressources, à la recherche d'un revenu plus élevé, des secteurs essentiels soumis à contrôle et peu rémunérateurs aux secteurs accessoires de l'économie non soumis à contrôle mais de meilleur rapport.

4° par la fuite des capitaux à l'étranger.

II. L'altération des prix à l'extérieur, conséquence du maintien du taux officiel de change, a grandement surévalué la livre israélienne (LI). Son influence sur l'économie peut être résumée en neuf points:

1° les importations ont été encouragées tandis qu'en même temps les exportations étaient entravées, de sorte que la balance des paiements est allée de mal en pis;

2° le contrôle des prix et le rationnement ont dû être établis sur toutes les importations pour limiter artificiellement la demande effective;

3° lorsque des marchandises importées n'étaient pas soumises à rationnement pour l'une ou l'autre raison, il s'en est suivi un enorme gaspillage. Les céréales et les huiles minérales en sont les exemples les plus caractéristiques;

4° étant donné que les importations étaient sans cesse meilleur marché et de meilleure qualité que les produits nationaux correspondants, la production locale a tendu à se concentrer sur des biens non essentiels pour lesquels elle n'avait pas à redouter

la concurrence étrangère puisque le programme officiel d'importation était consacré uniquement aux produits de base;

5° dans l'agriculture cette tendance s'est manifestée par l'accroissement rapide de la production des fruits, des légumes et des produits de la ferme au dépens des aliments de base tels que les céréales, les graisses, le sucre etc.;

6° dans la production industrielle, il y eut extension des branches terminales des industries de consommation, en raison, d'une part, des matières premières ou des produits demi-finis importés très bon marché et, d'autre part, de l'insatiable marché intérieur;

7° devant l'impossibilité manifeste de développer les exportations, des essais soutenus ont été faits pour améliorer la balance des paiments par le développement de l'autarchie de manière à remplacer les importations;

8° „l'intérêt personnel éclairé" en arriva à se détourner toujours davantage des fonctions productives et se concentra autour des devises étrangères, source unique et la plus concentrée de richesse dans le pays;

9° a un rapport de prix de 350 pour 1000 de la LI pour 1 $, et de 3.000 LI par journée de travail, a correspondu, étant donné la basse productivité du travail intérieur, une tendance irrésistible de tous les producteurs à remplacer par un équipement mécanique le travail agricole local dans le processus de la production. Comme il n'existait pas suffisamment de devises étrangères pour satisfaire complètement cette tendance, le résultat inévitable fut la croissance d'une économie déséquilibrée dans laquelle une agriculture petite mais superbement mécanisée, l'industrie, les transport etc.... coexistaient avec une masse misérable de main d'oeuvre (nouveaux immigrants) qui ne pouvait pas être occupée par le capital à un degré suffisamment élevé pour être d'un emploi économiquement rentable. Au lieu de cela, ces nouveaux immigrants ont dû être maintenus dans une oisiveté complète dans de vastes camps ou bien plus tard mis au travail dans d'immenses entreprises d'utilité publique, d'une productivité douteuse, le tout à grands frais pour le public.

La mise en vigueur de la NEP à la mi-février 1952, comportait deux mesures politiques d'importance fondamentale:

1° le taux de change officiel unique a été remplacé par des taux de change multiples, camouflant en réalité une dévaluation partielle de la LI, à savoir:

Le Taux de change „A" = à l'ancien taux unique de 2,80 $ pour 1.000 LI.

Le Taux de change „B" = 1,40 $ pour 1.000 LI.

Le Taux de change „C" = 1 $ pour 1.000 LI.

2° le Gouvernement prit la résolution solennelle de mettre un terme au déficit de ces budgets en supprimant le budget de la Défense nationale par transfert de tous les crédits de défense nationale au budget ordinaire (en équilibre) et en finançant le budget de développement uniquement par des moyens non inflationistes.

Sa réalisation (1952-1954)

Exposons maintenant les effets de la N.E.P. sur l'économie nationale deux ans exactement après sa mise en vigueur. Durant la période qui a suivi, certains facteurs indépendants ayant joué en ordre principal méritent de retenir l'attention.

L'avènement de la N.E.P. coïncide avec la fin virtuelle de l'immigration massive en Israël. Pendant les deux années 1952/53. la population juive n'a augmenté que de 80.000 âmes, soit moins de 6 %. La N.E.P. a mis en branle un processus de dévaluation larvée par le transfert continuel de branches d'importation du régime du change plus favorable aux taux moins avantageux. Au printemps de 1953, les taux de change „A" ($ 2,80 = 1,000 L.I.), „B" ($ 1,40 = 1,000 L.I.) et „C" ($ 1,00 = 1,000 L.I.) ont été complétés par un taux de change à prime „P" de $ 0,55 pour 1,000 L.I. La tendance générale depuis lors a été d'en revenir à un change unique au taux „P". En l'été de 1954 toutes les opérations de change étranger ont eu lieu officiellement au taux de $ 0,55 = 1.000 L.I., à l'exception de quelque 60 millions de L.I. traitées à un taux fixé annuellement pour subsides à des importations de biens essentiels.

Depuis la N.E.P., le Gouvernement a levé trois emprunts forcés qui doivent rapporter environ 80 millions de L.I. à la Trésorerie. Le premier fut lancé en juin 1952 quand, à l'occasion du remplacement des billets de banque, un emprunt forcé fut levé à concurrence de 10 % sur les billets et les dépôts bancaires; il rapporta 21,6 millions L.I. Le second, qui devint loi en 1953, n'est autre chose qu'un choix entre un emprunt sur la propriété ou un impôt sur le capital. On escompte que l'emprunt rapportera 45 millions de L.I. par paiements échelonnés sur trois ans. Les détenteurs de propriétés peuvent cependant opter pour un impôt sur le capital qui s'élève en tous cas à la moitié de l'emprunt. La troisième mesure est une avance sur l'impôt sur le revenu pour l'année financière d'avril 1953 à mars 1954, qui devrait rapporter 15 millions de L.I. et est destinée à combattre le chômage.

Les mesures de contrôle quantitatif et qualitatif du crédit bancaire instaurées en 1950 en 1951, ont été renforcées durant la période qui suivit la N.E.P. Quantitativement, en relevant progressivement les

réserves liquides exigées et qualitativement en complétant les interdictions quant à ceux à qui *ne pas* prêter, par des instructions positives sur l'affectation du crédit bancaire: par exemple 20 % du crédit total doivent aller à l'agriculture etc.

Depuis la deuxième guerre mondiale, les appointés et salariés ont été protégés contre la hausse des prix par des allocations de vie chère variant automatiquement en fonction du coût de la vie et revisées d'habitude trimestriellement. En septembre 1951, le nouvel index du coût de la vie est entré en vigueur et un nouveau système unifié d'allocations pour vie chère fut instauré avec un taux maximum mensuel de 0,800 L.I. (c'est-à-dire le centième du salaire de base de 80,000 L.I.) par hausse de l'index d'un point. En décembre 1953, le taux maximum fut porté à 1,25 L.I. par mois et par point de l'index du coût de la vie. Les allocations de vie chère ne sont pas légalement prévues mais elles sont appliquées dans à peu près tous les contrats de travail dans le pays, y compris tous les emplois dépendant du Gouvernement.

Le déficit financier avoué du Gouvernement, suite du fonctionnement de la planche à billets à l'époque d'avant la N.E.P. a été remplacé de 1952 à 1954 par un déficit financier *camouflé*, moyennant virement des déficits budgétaires à un fonds extra-budgétaire, appelé Fonds des Changes, qui fut érigé en février 1952 pour traiter toutes les ventes et les achats par le Gouvernement de devises étrangères aux différents taux. Celà signifiait en réalité que dans l'ensemble les achats de devises étrangères du Gouvernement s'effectuaient à des taux plus élevés que ses ventes. Le budget pour 1954/55 est fondé sur le taux unitaire de $ 0,55 pour 1.000 L.I., de sorte que le Fonds des Changes est supprimé d'un trait. Les budgets ordinaire et extraordinaire ont été pour la première fois fusionnés en un seul budget consolidé. La classification des postes de rentrées et de dépenses en opérations courantes et opérations en capital montre que le Gouvernement espère couvrir le déficit de 51 millions de L.I. du compte des opérations courantes par un boni correspondant au compte des opérations en capital.

Les facteurs à caractère indépendant dont il a été question ci-dessus ont été à l'origine de six processus dérivés que voici (le fait qu'il s'agit dans les deux cas de six rubriques est purement accidentel):

1) Pendant les deux années de janvier 1952 à janvier 1954 l'index officiel du coût de la vie a haussé de 89 %, soit de 113 à 224 points (septembre 1951 = 100).

2) Pour un travailleur-type gagnant un salaire de base de 100 L.I. par mois, les allocations de vie chère ont augmenté de 5,600 L.I. par mois pour la période de janvier-février 1952 à un total de 95.800

L.I. par mois en mars-mai 1954. L'allocation de vie chère maximum à cette dernière date pour les travailleurs gagnant un salaire de base de 125 L.I. par mois et plus, s'est élevée à 99,550 L.I.

3) Le taux nominal des rémunérations dans l'industrie, pour les deux sexes et tous les âges, est passé durant la période de janvier 1952 à janvier 1954 de 3,093 L.I. à 6,277 L.I. par jour, soit une majoration de 103 %. Comme l'index du coût de la vie n'a augmenté que de 89 %, il s'ensuit que le taux *réel* des salaires a progressé de 7 % durant cette période bisannuelle.

4) Le montant nominal de la circulation monétaire s'est accru de 82,2 millions de L.I. ou d'un tiers pendant la période de janvier 1952 à janvier 1954.

5) Cependant, la valeur réelle de la circulation monétaire est tombée de 30 % en ce laps de deux ans. Cette diminution de valeur réelle de la circulation monétaire a eu un effet désinflationniste salutaire sur l'économie. Fin de 1952, débuta l'abandon officiel des mesures de restriction, à tel point qu'en 1954 seules certaines denrées alimentaires essentielles étaient encore sujettes au rationnement. Les prix sur le marché à spéculation libre, touchant par exemple aux biens immeubles, à la construction privée, aux produits de luxe, etc.... sont tombés d'un quart et plus. L'activité dans la construction s'est ralentie. La valeur de la L.I. sur le marché noir, qui était tombés sans arrêt à l'époque avant la N.E.P., est demeurée stable en 1952 et 1953 à un niveau se situant légèrement au-dessus de $ 0,40 pour 1.000 L.I.

6) Malgré la fin de l'immigration en masse, les chiffres officiels du chômage en 1952 et 1953 ont été respectivement de 48 % et de 179 % plus élevés qu'en 1951. L'ampleur réelle du chômage en 1953 peut être estimée à 10 % de la population occupée lucrativement. Parmi les causes de cette situation, on en trouve trois dignes de mention: d'abord, à la suite de la cessation du déficit budgetaire avoué, *moins* de projets générateurs d'emplois ont pu être financés par le Gouvernement de sorte qu'un *plus grand nombre* de nouveaux immigrants, qui *n'avaient jamais pu* être absorbés par l'activité économique, ont été laissés ouvertement en chômage.

Deuxièmement, comme la demande effective baissait, une partie des entreprises et des services qui avaient poussé comme champignons durant la période inflationniste précédente, à cessé d'exister ou a dû réduire ses activités.

Troisèmement, la contraction violente de la circulation monétaire affectant *aussi bien* le niveau des prix que le taux des salaires rendit impossible, une fois supprimé le pouvoir d'achat excessif dans l'économie, de payer encore de hauts salaires et de maintenir le volume précédent de produits vendus avec une marge bénéficaire

normale ou même au prix coûtant sur le marché local. Aussi le niveau de l'activité économique baissa et le chômage s'accrut.

La dernière partie de l'exposé est consacrée à une appréciation générale de la N.E.P. et de l'conomie d'Israël à la lumièère de l'ensemble des données qui précèdent. En définitive, la mesure de la santé de l'économie israëlienne est donnée par sa balance des paiements. L'importation nette de capitaux s'est poursuivie sur une grande échelle et a atteint 556,8 millions de dollars durant les années 1952/53. Pour le premier trimestre de 1954, le déficit apparent de la balance commerciale est de plus de 11 % moindre qu'à la période correspondante de 1953, principalement grâce à une augmentation intéressante des exportations de citrons. Quantitativement, l'importation nette de capitaux durant les deux années a atteint en moyenne 35 % du revenu national, tandis qu'au point de vue qualitatif seule une moyenne de 66 % a été affactée à de nouveaux investissements; le solde de près de 187 millions de $ était dépensé en biens de consommation. Quelle a été l'influence de la N.E.P. sur les deux altérations principales du mécanisme des prix définies plus haut?

Quant à l'altération à l'intérieur: l'inflation de la demande propre à la période antérieure à la N.E.P. fut endiguée dans la période postérieure par un réajustement des prix à grande portée, fixant même le prix officiel du $ en fonction de la valeur réelle de la L.I. dépréciée. En même temps, une barrière solide fut opposée au développement de la circulation monétaire, de manière à éviter la naissance d'une nouvelle pression inflationniste.

L'effet combiné de ces mesures a fini par rétablir un certain équilibre entre la demande et l'offre. L'existence de dispositions sociales quasi-automatiques tendant à la protection du niveau de vie a permis à la plupart des classes de la société, surtout aux salariés, de maintenir leurs revenus *réels* par des augmentations du revenu nominal en rapport avec l'augmentation du niveau des prix. L'inflation de la demande, cause de la hause des prix, se transforma dès lors en une inflation des revenus et des coûts, résultat de la hausse des prix. Ce processus, coïncidant avec une contraction réelle de la circulation monétaire, entraîna du chômage. Pour y remédier, le Gouvernement eut la main forcée dans le sens d'un relâchement, surtout depuis 1953, des restrictions au développement de la circulation monétaire, ce qui à son tour, a tendu à renouveler dans l'économie la pression inflationniste de la demande. La hausse continuelle du niveau des prix peut en conséquence être attribuée à un mélange de facteurs inflationnistes du coût et de la demande.

L'objectif fondamental de l'époque d'avant la N.E.P. était de

supprimer l'inflation de la demande. Mis en échec par le marché noir généralisé, la fuite ininterrompue des capitaux etc.... il aboutit à déplacer le revenu national à l'avantage des classes possédantes et, *au sein* de celles-ci, en faveur des éléments les plus malsains et les moins productifs. L'objectif fondamental de la période postérieure à la N.E.P. est une inflation „avouée" des coûts. Accompagnée de mesures destinées à maintenir le revenu *réel* des salariés, elle aboutit également à un double déplacement du revenu national: d'abord à l'avantage des classes laborieuses, ensuite, en *leur sein*, en faveur des anciens travailleurs à emplois stables, grâce aux avantages des allocations de vie chère à caractère automatique, et aux dépens des nouveaux travailleurs immigrants chômeurs totaux ou partiels ou affectés à des travaux extraordinaires etc.....

Quant à l'altération des prix à l'extérieur: mesurée par la diminution de la marge entre la valeur de la L.I. sur le marché officiel et sur le marché libre, l'importance quantitative de l'altération des prix à l'extérieur s'est, pour une bonne part, atténuée. En même temps, l'introduction officielle de taux de change multiples introduisit un aspect nouveau de cette altération. Cependant, très peu de changements sont intervenus au point de vue de ce que nous avons appelé plus haut le problème fondamental de l'économie, à savoir le rapport anormal entre les salaires à l'intérieur et les taux de change à l'extérieur. Par l'effet automatique du système des allocations de vie chère, le résultat final net d'une chute de 30 % dans la valeur réelle de la circulation monétaire et d'une dévaluation de 80 % de la L.I. depuis la N.E.P. a été, d'une part, de créer un sérieux problème de chômage et, d'autre part, d'empêcher que ce chômage soit exporté sous forme de biens et de services capables d'affronter la concurrence sur le marché libre mondial.

Aujourd'hui, deux ans et quart après l'instauration de la N.E.P. l'économie fait face à deux contradictions dont l'élimination est la condition *nécessaire* mais *non suffisante* du rétablissement économique.

Première contradiction — Les résultats conjugués de l'index du coût de la vie et des indemnités de vie chère sont le maintien d'un niveau minimum réel de consommation pour les classes appointées et salariées qui dépasse leur contribution, comme agents de la production. La conséquence inévitable en est soit l'inflation galopante, soit le chômage en masse, soit l'épuisement du capital national, soit encore une combinaison des trois en proportion variable.

Seconde contradiction — Le niveau officiel des salaires en espèces maintenu par l'Histadruth en rapport avec le niveau des prix est tel qu'il permet un emploi productif, économiquement valable, uniquement en conjonction avec un degré élevé d'investis-

sement, c'est-à-dire avec un équipement moderne qui épargne la main d'oeuvre. Le disponible total de main d'oeuvre sur le marché, conséquence de l'immigration massive de 1948/51, a dépassé de loin les possibilités du capital d'équipement, du moins selon une combinaison qui aurait rendu le plein emploi productif, en d'autres termes économiquement valable. Dans les conditions régnantes il est donc resté un résidu de main d'oeuvre inoccupée qui a dû être mis à charge des pouvoirs publics. Etant donné les rapports quantitatifs rappelés plus haut, il n'y a que deux possibilités de maintenir le plein emploi: en supprimant l'inflation de la demande ou en affectant totalement les capitaux importés à la consommation. Sans une réforme équitable du système des allocations de vie chère liées à l'index du coût de la vie, il n'existe pas d'espoir d'effectuer le rétablissement rationnel de l'économie israélienne. L'Histadruth a jusqu'ici repoussé toute tentative de semblable réforme pour le motif qu'elle porterait atteintte au niveau de vie des travailleurs. A ceci on peut répondre deux choses importantes:

D'abord, en supposant que les importations massives de capitaux cesseront d'ici 5 à ans, la solution essentielle consite à réduire *actuellement* le niveau de vie moyen dans une proportion *tolérable* pour éviter son *effondrement dans un avenir qui n''est plus si lointain*. Ensuite, s'il est nécessaire d'amputer les salaires réels officiels d'un quart ou même d'un tiers (ceci est fort probablement excessif) afin de permettre le plein emploi productif dans l'économie, alors les nouveaux immigrants actuellement inoccoupés ou employés occasionnellement (c.à.d. à raison de 10 à 20 jours de travail par mois pour la moitié ou les deux tiers des barèmes de l'Histadruth) bénéficieront certainement du changement sous l'angle de leur standard de vie. Les conséquences d'une réforme du système des allocations de vie chère sont donc: en premier lieu, une redistribution, en temps utile, des niveaux de vie, moins accentuée pour commencer, plus forte ensuite et, en deuxième lieu, une redistribution des niveaux de vie au sein des travailleurs eux-mêmes, donnant moins aux anciens immigrants, plus aux nouveaux. La difficulté réelle provenant de l'Histadruth n'est pas tellement qu'il aurait des exigences excessives en faveur de la classe laborieuse mais que depuis longtemps il a cessé de représenter les intérêts économiques véritables de *l'ensemble* des travailleurs israéliens.

BREAD OR GUN

From the viewpoint of the technological interpretation of history

BY TSUNESABURO TOKOYAMA

Waseda University, Tokyo, Japan

1. *Introduction*

W. Sombart once remarked that the 16th century had enjoyed twenty-five years of peace and the 17th century only twenty-one years of peace. Entering the 20th century, we have witnessed many wars, global and sectional, cold and hot, including World Wars I and II, Korean War, Indo-Chinese War etc. This sequence of events leads us to a dark conjecture that another century of wars and armed conflicts is again to overwhelm us.

The world situation as it is, all the nations throughout the world are likely to be called upon to meet ever-increasing requirements for military expenditures. This all-out military preparedness will eventually deplete national finance and jeopardise national life. Under the circumstances, the question of "Bread or Gun" presents an issue compelling and formidable to all concerned. It is the very question we are seriously concerned with, living as we are in a country like Japan which has to depend, for subsistence, mostly upon the import of foodstuffs and clothing and the export of goods processed with raw materials largely brought in from abroad. At the same time Japan's rearmament program, if materialized, may irritate those neighboring countries with whom no formal peace treaties have yet been signed and with whom no normal trade relations have been restored.

It is therefore a matter of great significance for us to observe at a closer range many perplexing problems this century is confronted with, much to the bewilderment of its contemporaries. To take up the much discussed issues of national budget, military expenditures, national income, etc. is not our immediate concern, important and imperative as these matters are. We are, however, particularly interested in bringing into clear perspective the basic causes which have been instrumental in shaping a kind of world we live in today.

Taking "the attitude of a doctor who tries to give a scientific diagnosis of the illness from which we all suffer", K. Mannheim in his book, "Diagnosis of Our Time".[1] attempted to diagnose

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[1] Karl Mannheim, Diagnosis of Our Time, London, 1947, P. 1.

"What is our social disease?" and to find out "What could be its cure?" But my primary concern here is to find out, if possible, the causes of the disease. A heavy burden of military expenditures is likely to jeopardize the stability of the living conditions of the peoples throughout the world. It is likewise the common experience of the entire world that military preparedness has been given a higher priority over other national issues of great urgency. According to our diagnosis, these symptons can be taken as historical facts asserting themselves in the present stage of world development.

A trained doctor tries to diagnose his patient on the basis of his clinical experience; so we should attempt a diagnosis of various problems perplexing our times in the light of historical experience. Historical facts occur only once. They do not repeat themselves. In the process of history, however, there arise situations or conditions which can be comparable to those in past historical time. Present-day conditions, when carefully observed, are found to be quite analogous in many aspects to the conditions prevailed during the period up to the dawn of the modern era through the end of the Middle Ages. It is therefore a matter of great concern to us all that we should place under critical observation many problems harassing us today in the light of the conditions which were prevalent during the period from the close of Middle Ages up to the early part of the modern era. The natural scientist formulates a scientific theory on the basis of experimentation, while the social scientist, to whom this experimental approach is denied, has to rely entirely on the past experience of mankind in the process of historical development, thereby proceeding to diagnose the existing social illness, should he ever try to be scientific in his approach.

2. *Method of Study*

(Re: Technological Interpretation of History)

In the attemp to make a diagnosis of our time, Mannheim, first of all, resorted to social techniques. While these social techniques are found to be acceptable to us also, our attempt here is to observe the process of history in correspondence with the progress of techniques strictly from our point of view. In this connection, mention may be made of the epoch-making writings of the past which have given us and are still giving us direction and inspiration and which I have freely and extensively consulted:

Thomas Hobbes, Leviathan, 1651
Adam Ferguson, An Essay on the History of the Civil Society, 1767

Karl Marx, Das Kapital, 1867
(with particular reference to 'technologie')
Karl Mannheim, Diagnosis of our Time, 1943

I like to add to the above list a book, called "Harmony between the East and the West", written by Marquis Shigenobu Okuma (foremost Japanese statesman during the Meiji and and Taisho Eras) in 1922. Incidentally, the idea of 'technologie', set forth by Karl Marx in "Das Kapital", is believed to open up a new vista for the views in those aspects.

First of all, we should proceed to observe human behaviour in the process of human history from the standpoint of "homo faber". According to our conception, men organize a society through the inter-action of their activities. While living things are said to evolve as a rule by means of adapting themselves to ever-changing environment, human beings adapt themselves to environment artificially, thereby pushing forward the course of history through artificial adaptation to environment. Whereas the evolution of living things takes place as a result of ever-recurring conflicts between heredity and adaptation, the evolution of human society is effected by ever-recurring conflicts between tradition and artifial adaptation. The progress of history, therefore, depends upon how extensively man can modify his environment through artificial adaptation.

Prompted by insatiable human wants, the mode of our artificial adaptation to environment being elaborated will undergo modifications, by which the progress of history is made possible. We call such a mode of artificial adaptation a technique. Man is subjected not only to natural environment but also to social and "ideal" or intellectual environment.

Accordingly in the field of techniques, there are conceived, besides techniques adaptable to nature, social and "ideal" or intellectual techniques. The basic factor, which makes the progress of history possible, can be traceable to the advancement of production techniques, adaptable to nature, which have been introduced into production process.

Karl Marx asserts that the development of productive power punctuates the progress of society, but I assume that the development of productive power is possible only when the advancement of production techniques is made an essential pre-requisite. We, however, do not conceive of techniques as being the only system of materialistic production means. Human beings, who have to depend on food, clothing, and shelter for subsistence, find it necessary to make artificial adaptation to natural environment in the process of actual production. To attain this end, we elaborate on techniques adaptable to nature or introduce the already elaborated techniques

in the process of production. These production techniques embodied in the shape of things of nature, are referred to as materialistic means of production. This fact can be comparable to the social techniques which have been externalized and instrumentalized in the form of social organizations and institutions. It should also be mentioned here in passing that "ideal" or intellectual techniques, when externalized and instrumentalized, take the form of words or conceptional definitions. Techniques exist in the deeds of man, not on the side of nature. So long as human wants are unsatiable, techniques make improvements through artificial adaptation to environment. It is only with the improvement of production techniques, corresponding to techniques adaptable to nature in the process of production, that the progress of history is made possible.

As we observe the relation between technical progress and social advance in its entirety, we are led to a conclusion that human beings, relying upon food, clothing, and shelter for subsistence, will, first of all, find it necessary to make artificial adaptation to nature in the process of production.

In order to acquire the necessaries of life, man exercises his ingenuity in devising production techniques adaptable to nature and introducing the techniques already elaborated in the process of production. Along with the progress of these production techniques, the process of production makes headway.

Once the production technique has reached a certain stage of development, the direct production process undergoes tranformation. The transformation of any of these production processes leads to a formation of new productive modes. Thus, revolving around the ownership of newly created productive means, new social relations are established and new social institutions are evolved as well. It may be parenthetically noted that this is made possible by means of devising "ideal" or intellectual techniques and the various social techniques already mentioned above. In the process of this development, some social notions are given birth, reacting at the same time on the social process brought into being by these social notions. Thus, a comprehensive social environment crystallizes itself. In a certain definite progressive stage of techniques, there develop certain definite production processes, certain definite productive relationships, certain definite social institutions, and certain definite social notions. Social institutions, once established, tend to become fixed and work counter to the progress of new techniques. In spite of it all, techniques are bound to accelerate themselves for a constant up-ward movement and continue to advance in response to unsatiable human wants, thereby a higher stage of technical progress being reached.

With the attainment of a new stage of technical advance, there develop new production processes, new productive modes, new productive relationships, new social institutions, and new social notions. Thus a new social environment becomes a reality. In the process of these transformations, the traditions of the old society come in conflict with artificial adaptation to new environment. This conflict continues repeating itself. In this way, a historical society progresses.

As noted above, this conflict occurs quite corresponding with the repeated conflicts between heredity and adaptation taken place in the process of evolution in the world of the living. This is also characteristic of the process of human history.

As we view from the above standpoint, the difficulty engendered by increasing military expenditures at this stage of progress in public finance and national economy, we can not help realizing that the above condition has been brought about by the fact of priority of military techniques.

3. *Priority of Military Techniques*

In the recent stage of history, atomic power technology made its appearance as a new technique, surpassing the previously known technical development. It has been taken into the moulding of military techniques over and above all others. H. J. Laski predicted in his article contributed to the December, 1945, number of Nation Magazine that with the coming of Atomic Age, the world would undergo a second industrial revolution, advocating at the same time a new planned economic, social, and political internationalism to be evolved in harmony with changed conditions. The Emergency Committee of Atomic Scientists of the United States, of which Albert Einstein is chairman, takes full cognizance, in its June, 1947, statement, of the facts that no man can stand alone like an isolated island and that the fate of every man is closely linked with that of his fellow men. In this respect, we cannot help recalling to our minds what G. Schmoller once pointed out as to the immediate consequences of human progress.

He then laid stress on the necessity of formulating a new state and national policy in place of the antiquated local or territorial policy and also of reconstructing, from the very foundation, society and its organization, state and its institution. [2])

Just as the once dominant compartmentalized or feudalistic social system was under the pressure of necessity superseded by the system of interdependence and interrelationship, consistent with the

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[2]) Gustav Schmoller, Umriss und Untersuchungen zur Verfassungs-, Verwaltungs- und Wirtschaftsgeschichte, 1898, S. 37.

progress of new techniques, so all the nation-states throughout the world which are opposed to each other, while maintaining their national independence, by reason of their adherence to the concept of national sovereignty, will be called upon to seek their salvation in establishing a new relationship of interdependence. The existing national policy based on the principle of state and national domination is compelled to be so revised as to take the form of a federal system on a world-wide scale.

Laski's predilection and the new planned internationalism mentioned above were set forth in view of the existing world disorder, short of utter chaos. We observe today that new techniques have been more or less exclusively incorporated in the whole system of military techniques. As was more than once reenacted in the drama of human history, military strategy and tactics have been renewed through the introduction of new atomic power technology. Thus, the scale of warfare has been enlarged. Above all, huge military expenditures have been made inevitable. This chain reaction has undermined the stability of national finance, in consequence of which the general masses have been obliged to lower their standard of living because of heavy taxation. A century of wars is about to be ushered in, following in the footsteps of the past centuries which have been beset with wars, big and small, long-extended and short-lived. What concerns us most in the two correspoding transition stages of history is that new techniques in these stages of historical development have been inculcated into military techniques. This fact will inevitably invite many perplexing problems, which will always be present at the cross-roads of history.

Adam Smith discusses in his "Wealth of Nations" about the mode of military affairs, emerging from the fact of priority of military techniques, observed in the previous stage, as follows: [3])

> "Before the invention of fire-arms, that army was superior in which the soldiers, had, each individually, the greatest skill and dexterity in the use of their arms. Strength and agility of body were of the highest consequence, and commonly determined the fates of battles. But this skill and dexterity in the use of their arms could be acquired only, in the same manner as fencing is at present, by practising, not in great bodies, but each man separately, in a particular school, under a particular master, or with his own particular equals and companions. Since the invention of fire-arms, strength and agility of body, or even extraordinary dexterity and skill in the use of arms, though they are far from being of no consequence, are, however, of less consequence."

Adam Smith most aptly envisages a transformation in the mode of warfare and proceeds to comment as follows:

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[3]) Adam Smith, Wealth of Nations, with an Introductory Essay and Notes, by J. S. Nicholson, London, 1887, PP. 292-293.

"Regularity, order, and prompt obedience to command, are qualities which, in modern armies, are of more importance towards determining the fate of battles, than the dexterity and skill of the soldiers in the use of their arms. But the noise of fire-arms, the smoke, and the invisible death to which every man feels himself every moment exposed, as soon as he comes within cannon-shot, and frequently a long time before the battle can be well said to be engaged, must render it very difficult to maintain any considerable degree of this regularity, order, and prompt obedience, even in the beginning of a modernbattle. In an ancient battle, there was no noise but what arose from the human voice; there was no smoke, there was no invisible cause of wounds or death. Every man, till more mortal weapon actually did approach him, saw clearly that no such weapon was near him. In these circumstances, and among troops who had some confidence in their own skill and dexterity in the use of their arms, it must have been a good deal less difficult to preserve some degree of regularity and order, not only in the beginning, but through the whole progress of an ancient battle, and till one of the two armies was fairly defeated. But the habits of regularity, order, and prompt obedience to command, can be acquired only by troops which are exercised in great bodies."

Thus, he goes the great length of dwelling on the necessity of training soldiers equipped with new arms. Such a changed method of training soldiers and such a changed mode of warfare necessitated instituting a coordinative group training program for soldiers on a more or less permanent basis. This is primarily because battles have come to be waged in accordance with the principle of coordination and integration, just as the industry has come to be operated on a cooperative basis, along with the introduction of new industrial techniques.

What with the appearance of new weapons, which calls for the necessity of training soldiers on a permanent basis, what with the widening of war theatres, and what with the prolongation of the duration of war, there arose possibilities for emergence of a new trade, which may be. called " trade of soldiers". In this respect, Adam Smith remarks most pointedly as follows: [4])

"When the art of war, too, has gradually grown up to be a very intricate and complicated science; when the event of war ceases to be determined, as in the first stages of society, by a single irregular skirmish or battle; but whence the contest is generally spun out through several different campaigns, each of which lasts during the greater part of the year; it becomes universally necessary that the public should maintain those who serve the public in war, at least while they are employed in that service. Whatever, in time of peace, might be the ordinary occupation of those who go to war, so very tedious and expensive a service would otherwise be by far too heavy a burden upon them."

In his days manufacture and commerce were developed and firmly established as trades, Smith proceeds to states:

4) Adam Smith, ibid., PP. 290-291.

"Though a husbandman should be employed in an expedition, provided it begins after seed-time, and ends before harvest, the interruption of his business will not always occasion any considerable diminution of his revenue. Without the intervention of his labour, nature does herself the greater part of the work which remains to be done."

This was made possible by the original productivity of the earth in the case of agriculture. Likewise in the agricultural stage of that period, the young and the old, including women, could well be entrusted to carrying on farm work with fairly satisfactory results. So long as wars were of a short duration, no large expenditures were required for the maintenance of soldiers in arms. But as Smith explicitly states "The moment that an artificer, a smith, a carpenter, or a weaver, for example, quits his work-house, the sole source of his revenue is completely dried up. Nature does nothing for him; he does all for himself. When he takes the field, therefore, in defence of the public, as he has no revenue to maintain himself, he must necessarily be maintained by the public." In any event, agriculture came to assume a new aspect, as described by Adam Smith in the following excerpt: "Those improvements in husbandry, too, which the progress of arts and manufacturers necessarily introduce, leave the husbandman a little leisure as the artificer".

Soldiery, therefore, has come to constitute a new division of labor and to be looked upon as an established trade. In consequence, there were brought into operation standing armies which were chiefly trained for war purposes, having been maintained exclusively by states. The soldiers thus drafted into these armies derived their chief revenue from the compensations provided for by states, as Adam Smith observes in the following passages: [5])

"As art and industry advanced, the authority of the chieftains gradually decayed, and the great body of the people had less time to spare for military exercises. Both the discipline and the exercise of the feudal militia, therefore, went gradually to ruin, and standing armies were gradually introduced to supply the place of it. When the expedient of a standing army, besides, had once been adopted by one civilized nation, it became necessary that all its neighbours should follow the example. They soon found that their safety depended upon their doing so, and that their own militia was altogether incapable of resisting the attack of such an army."

I quoted Adam Smith quite at length. I feel, however, justified in doing so, since his following statement to the effect that the extensive use of fire-arms has changed the configuration of battle fields, is still suggestive and instructive to us even in this day of hydrogen bomb: "In an ancient battle, there was no noise, but what arose from the human voice; there was no smoke, there was no

5) Adam Smith, ibid., P. 295.

invisible cause of wounds or death. Every man, till more mortal weapon actually did approach him, saw clearly that no such weapon was near him." Now the character of battlefields has been changed with the introduction of hydrogen bomb. In this age of hydrogen weapons, danger is no longer confined to battlefields and "the invisible cause of wounds or death" has come to threaten peoples living in the parts of the world far from battle-fields, as is clearly evidenced by the atomic bomb explosion test at Bikini. Mannheim has the following comment to make on modern arms: [6])

> "Whereas the armies of the eighteenth and nineteenth centuries were equipped with rifles and guns, our armies work with bombs, aeroplanes, gas and mechanized units. A man with a rifle threatens only a few people, but a man with a bomb can threaten a thousand."

But, at the time of his writing, he knew nothing of atomic bombs. It is now possible for one man threatening the lives of hundreds of millions of people, once armed with a single hydrogen bomb. Although nothing can be compared in human history with a devastation that can be wrought upon mankind by this newly invented nuclear weapon, it is not difficult for us to surmise that the emergence of modern fire-arms, replacing such medieval weapons as a bow and arrow, a spear, or a sword, must have given to the earlier moderns the correspondingly overwhelming threat that we in this transition stage to a newer historical society have been compelled to face, incident to the appearance of nuclear weapons that are overshadowing the previously known modern arms.

The so-called modern weapons of a fire-arms type made possible the debut of a modern standing army, replacing the feudal militia. Along with national armies, a United Nations army has been newly created. The situation is such that the theatre of war, whenever a major war breaks out, is likely to assume a world-wide scale. In the past, it was true as Adam Smith once stated that "when the expedient of a standing army, besides, had once been adopted by one civilized nation, it became necessary that all its neighbours should follow the example. They soon found that their safety depended upon their doing so, and that their own militia was altogether incapable of resisting the attack of such an army".

The picture has since then been completely changed. Today the greater part of the world is led into the two opposing forces, one by the United States and another by the U.S.S.R. These two diametrically opposed forces are vying with each other, threatening to resort to atomic weapons in case of emergency. At the present moment we only know for certain, however, that the United States

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[6]) Karl Mannheim, Diagnosis of Our Time, Londom, 1947, P. 2.

is in possession of atomic weapons. A cold war or a hot war is imminent or ever-present. Under the pressure of the heavy burden of military expenditures, national finance has grown beyond reasonable bounds. The weak and small nations can no longer cope with increasing demands for military requirements. As observed in the foreign aid program of the United States, though mostly confined to military aid, she has poured huge amounts of money into her allied nations. However, the present state of affairs is truly remindful of the following view of L. H. Haney, as presented in his History of Economic Thought: [7])

> "Warfare was vastly changed. Formerly there had been a hasty expedition, a pitched battle, and the issue was settled by courage; but at the time, of which we write, as an eminent mercantilist states, the whole art of war seemed, in a manner, reduced to money, and that prince who could best find money to feed, clothe, and pay his army, not he who had the most valiant troops, was surest of success and conquest."

The very fact that, although newly developed atomic technology has already been utilized, if at all possible, for the manufacture of arms, no new technical development has yet been introduced in production process by which defense expenditures both at present and in the future are to be financed, reminds us of the conditions stated above by Haney.

The crux of the matter is, it seems to us, that atomic technology has not so far been introduced into production process.

4. *Immensity of Military Expenditure.*

As the aforementioned passage quoted from Adam Smith clearly indicates, the invention of fire-arms contributed towards modernizing wanfare, but the development of production techniques lagged so far behind that of the war industry that nothing more than handicraft tools were then in actual use. In "Das Kapital, Karl Marx describes the modus operandi of "manufacture" as follows: [8])

> "Capitalist production only then really begins, when each individual capital employs simultaneously a comparatively large number of labourers; when consequently the labour-process is carried on on an anextensive scale and yields, relatively, large quantities of products. A greater number of labourers working together, at the same time, in one place (or, if you will, in the same field of labour), in order to produce the same sort of commodity under the mastership of one capitalist, constitutes, both historically and logically, the starting point of capitalist production. With regard to the mode of production itself, manufacture, in its strict meaning, is hardly to be distinguished, in its ear-

7) L. H. Haney, History of Economic Thought, New York, 1920, P. 108.

8) Karl Marx, Das Kapital, Berlin, 1928 1 Bd., SS. 269-270 Capital, translated by Samuel Moore and Edward Aveling, 1926, Vol. I, P. 293)

liest stages, from the handicraft trades of the guilds, otherwise than by the greater number of workmen simultaneously employed by one and the same individual capital. The workshop of the medieval master handicraftsman is simply enlarged."

True to his analysis, the techniques adaptable to nature then available in the process of production was mostly of a handicraft type and it was differentiated only to the extent of its having been socially integrated for the purpose of performing a function of intermediary handicraft tools for "cooperation."

What should be noted here is that although the techniques then available for actual production did not go beyond the handicraft stage, these handicraft tools, while employed in the workshop of the medieval days, came to be standardized and generalized over an extended period. Through this standardization and generalization, handicraft tools were socially integrated and systematically employed so as to make possible "cooperation" for their effective use. The reproduction of "the naturally developed differentiation of trades, which it found ready to hand in society at large", was made possible within one workshop. The advanced standardization and generalization of techniques in the medieval days made it possible to modernize production process by means of handicraft tools.

Handicraft tools, when having reached a highly developed stage, came to be differentiated and standardized, and an intricate coordination of such highly developed handicraft tools resulted in the invention of machinery and discovery of modern chemical technology. Though spasmodically, scientific technique, marking a new stage of technical development, began to exert itself. Previous to this new technique having been employed for peace-time production, it had been adopted into military techniques, which had been in turn modernized. Karl von Clausewitz claims in his book, Vom Kriege [9]), that "War is a violent act intended to conquer an enemy and to make one's will prevail. Violence, pitted against an enemy's violence, takes the form of arms, implemented with all kinds of technical and scientific inventions." He further comments that "War is a violent act with no limits to its use. One's violence has to be met by another's violence of an equal strength. Any interacting conduct, resulting from the collision of these two violences therefore knows no bounds in concept."

Thus, in this process, what new mechanical and chemical techniques available at that time were introduced to the fullest extent and with no restraint whatever in the production of arms for an successful conduct of war. This was a determining factor, in-

9) Karl von Clausewitz, Vom Kriege, translated in Japanese by K. Magome, Tokyo, 1935, vol. I, P. 52.

fluencing the economy of that time. Especially when the economy still depended upon the creation of wealth through production with the aid of only handicraft techniques, military requirements were disproportionately greater than the production capacity at that time, since an overwhelmingly big portion of national revenue had to be set aside for military expenditures. This brought a heavy pressure on the living conditions of people on the whole.

According to Wermer Sombart [10]), Spain in 1610 appropriated 93 % of her annual revenue for military expenditures, and France in 1639, 19,1000,000, livres or 60 % of her annual expenditures, in 1680, 97,869,754 livres or 74 %, and in 1784, 404,350,000 livres or 66 %. At the same time, Prussia during the reign of the Great Elector Brandenburg appropriated 2,050,000 tales or 66 % of her total expenditures and in 1739-40, 5,954,079 talers or 86 % and in 1797-98, 14,646,325 talers or 71 %. Of course we have to take into account various other factors when evaluating these figures, and at the same time the statistical data available then were not quite accurate, but it is no difficult a task for us to observe the dominant tendency pointing toward the disproportionately enormous amount of military expenditures having been appropriated by various nations at that time.

Take for example the fiscal policy of the United States which has a far-reaching effect on the rest of the world. As a matter of fact, these nations, subsisting on U.S. foreign aids, especially military aids, can hardly be said to have their own independent fiscal

U. S. Federal Government Expenditure

For the years, 1934-1954

Year	Total Expenditure(A) (Unit: a million Dollars)	Military Expenditure(B) (Unit: a million Dollars)	B/A %
1934—1936	7,950	1,085	14.3
1939	9,183	1,799	19.3
1941	34,187	22,905	66.8
1944	98,703	90,501	91.7
1947	33,791	11,500	34.0
1948	40,057	12,158	30.4
1949	40,167	12,346	30.7
1950	44,633	19,955	44.7
1951	66,145	39,033	59.0
1952	74,607	44,584	59.8
1953	70,902	41,600	58.7
1954	65,570	37,575	57.3

10) Cf. W. Sombart, Der Moderne Kapitalismus, Munch., 1921, I/2 S. 759.

policies, worthy of the name. So, let us examine the total expenditures of the U.S. Federal Government in comparison with the military expenditures during the fiscal years from 1934 up to 1954. [11])

When compared with the total expenditures of the Federal Government with its military expenditures, we observe that soon after World War II, military expenditures have gone skyrocketed with the year 1951 claiming 59 % of a total. Of course the Second World War year of 1944, which absorbed for military expenditures 85.7 % of a total, was not taken into consideration for the reason, which is self-explanatory. The above table does not include an important item of U.S. foreign aid, but the U.S. national defense expenditures, in a broad sense, including these foreign aid outlays, have come to exceed 70 % of its total national expenditures. This is also quite remindful of the huge military expenditures in by-gone days.

Even in a country, like Japan, where war is renounced and armament is banned under the new constitution, it has been found necessary to have the following amounts and percentages of its national expenditures set aside for national security purposes. [12])

Comparison of National Security Expenditure with Total National Expenditure in Japan

Year	Total National Expenditure(A) (Unit: one million Yen)	National Security Expenditure(B) (Unit: one million Yen)	B/A %
1947	205,841	63,590	30.9
1948	461,794	107,020	23.2
1949	699,448	99,510	14.2
1950	633,294	115,120	18.2
1951	749,838	126,550	16.9
1952	873,942	180,152	20.6
1953	1,027,251	123,331	12.0
1954	999,588	137,311	13.7

France in 1632 appropriated for military purposes 19,100,000 livres or 60 % of its total expenditures and in 1680, 97,869,754 livres or 74 % of a total, from which we can easily deduce that not only the aggregate amounts of military expenditures but also their relative percentages evidenced considerable increases. While both

11) 1. The above figures were taken from the Manual of Taxation, compiled by the Tax Bureau of the Ministry of Finance, Japanese Government, Dec. 1954 (P. 4).
2. The figures for military expenditure do not include foreign aids.

12) The above figures were taken from the Manual of Taxation, compiled by the Tax Bureau of the Ministry of Finance, Japanese Government, Dec. 1954 (P. 4).

aggregate amounts of military expenditures and their relative percentages, as against the total expenditures, registered considerable increases over these years, it is significant to note that the year of 1784, that was about one hundred years hence, witnessed a decline in the ratio of military expenditures to a total of national expenditures to 66 %, the amount itself having increased to 404,350,000 livres. The above decrease in percentage was accounted primarily for the fact that approaching the close of the 18th century, new techniques were gradually introduced into the economy which was compelled to shoulder the responsibility of financing increasing military needs in the same degree that new techniques were taken into the production of military requirements. Accordingly, the strength of the economy on the whole became capable of bearing an increasing burden of military expenditures. After all, the amount of military expenditures is bound to vary in accordance with military needs. We cannot hastily draw any conclusion from the above down-ward trend in percentage without taking into account the existing international relations, but a certain definite tendency was then clearly discernible.

During the years of 1797-1798 Prussia still had to spend 71 % of its total expenditures for the military, which fact could be attributed to Prussia's delay in adopting new techniques into the production industry. In brief, we can very well infer that the immensity of military expenditures was characteristic of the period when the technical development of the general industry was not quite up to that of the military industry, and we find that the above tendency is clearly applicable to present-day conditions.

5. *Introduction of New Techniques into Industrial Process*

In the preceding chapter, reference was made to Karl von Clausewitz, who stated that "War is a violent act intended to conquer an enemy and to make one's will prevail. Violence, pitted against an enemy's violence, takes the form of arms implemented with all kinds of technical and scientific inventions". In the past, new techniques were aggressively and preferentially taken into the military industry. It is true that new techniques were also utilized for the development of the luxury industry, but the military industry especially enjoyed the fruits of new techniques.

It was under absolute monarchism in former times that new techniques were compellingly directed to the development of the war industry. New techniques, however, did not progress far enough so as to constitute what Marx calls "the bones and muscles of production", but since the needs of the arms industry, requiring

minute calculations, planned production and exact processing, were not met by handicraft techniques, mechanical and chemical techniques naturally enough came to be adopted into arms production. Moreover, quite true to W. Sombart's observation made in Der Moderne Kapitalismus [13]). "The ratio status of a state requires that goods and requisitions necessary for national defense should not be imported from abroad." Every absolute monarch therefore bent on establishing a self-sufficient war industry within his own domain. Once mechanical and chemical weapons were invented, a new method of training soldiers, compatible with the changed mode of warfare, was necessitated, further calling for the introduction of mechanical and chemical techniques into the production of arms. For instance, once troops were mustered under a mercenary system, a special type of training was required for regimenting the troops under a single command, and the necessity for this new method of training further called for the standardization and uniformity of arms and ammunition, clothing, and provisions and fodder. The development of "verlag" and "manufacture" was by this time more or less prompted by military requirements. Arms production, together with the production of luxury goods, from early days was also encouraged under state protection, with various privileges accorded. Entering this stage, however, the absolute monarch, trying to consolidate military might, found it expedient not only to control and manage the arms industry by himself under state ownership, but also to invite the private industry to participate in his military effort. Iron-works and other allied private enterprises were allowed to take up a manufacture of arms and ammunition and other requirements of war weapons, the undertaking of which proved to be quite a boon to these private enterprises. The adoption of regular uniforms for soldiers resulted in the requisition of standardized textile goods on a large scale from the private textile industry. Private commerce was at the same time stimulated by large demands for standardized provisions. Max Weber aptly writes in his Wirtschaftsgeschichte [14]) that "As the mercenary troops increased in numbers, the army administration assumed the role of a purchaser from the private industry. In line with the improvement of arms and military techniques and with the advancement in the training method of soldiers, it further became a bigger consumer of privately manufactured goods. In order to carry out effectively newly formulated unitary regulations and also to make it possible to place mercenary troops under a unified ccontrol, regular uniforms were

[13]) Cf., W. Sombart, Der Moderne Kapitalismus, München, 1921, II/2, S. 849.

[14]) Cf., Max Weber, Wirtschaftsgeschichte, München, 1923, S. 265.

introduced. This led to a stimulation of the private textile industry. Demands for arms and ammunition likewise bolstered up the private iron industry and demands for provisions, private trade".

The fact that military techniques took precedent over others induced to have new techniques taken into the private economy, with the result of which productions process was led to modernization. Under the restraining force of the guild system, propagation of new techniques was previously restricted or prevented from penetrating itself into production process, but the utilization of new techniques in the field of private industry was accelerated by gretater military requirements. Inventors and technical experts of military weapons came to be better cared for. Such being the case. as cannon manufacturing plants and arsenals took a lead in the modernization of production processes, the cast-iron factories, developed under the impetus of advanced arms manufacturing techniques, and the iron-works came to engage actively in the manufacture of arms and ammunition. All this resulted in influencing and stimulating the entire private industry.

In other words, modernization of production processes was effected through the medium of the arms industry. It was previously commented that military expenditures had been enormously increased as compared with other items of national expenditures. This was due to the fact that monetary demands of enormous proportions were found needed to cope with the above tendency. The previously known handicraft tools could no longer meet war requirements. In consequence, it was only through the intervention of military power that production techniques had been modernized. This modernization has been made possible by waging costly and foolhardy wars over the past several centuries. While going through this process, private production made progress, while new mechanical and chemical techniques were embodied in the shape of material production means in private production and the bones and muscles of production instruments in modern social production were being built up.

Moreover, in the place of the "verlag" and "manufacture" which emerged through the intermediary of a socially consolidated system of production instruments, based on the traditional handicraft tools originating from the Middle Ages, modern large-scale industry finally made its appearance. This was a prelude to the first industrial revolution.

Following in the footsteps of the past process, newly created techniques, atomic power technology in particular, were preferent ially introduced into military techniques. As was witnessed in past experience, this technical introduction has enormously augmented

military requirements and activated military production as well. This will bring into clear focus the question of "Bread or Gun", which is incidentally the title of this treatise.

H. J. Laski in his article, contributed to Nation Magazine, lays stress on the necessity of instituting a planned economic program so as not to repeat in the forthcoming second industrial revolution a disastrous plight corresponding to what the first industrial revolution brought about to the labor class. The entire world is now being harassed with this critical issue. It is regrettable to say, however, that conditions are such that no hopeful signs in this respect are still in sight.

With regard to the nations having been opposed to each other militarily and politically in the past, August Meitzen writes in his History, Theory and Technique of Statistics [15]) as follows:

> "The intriguing state policy of Italy, there a hundred years old, became the common property and the common danger of Europe. Modern diplomacy arose and with it a fabric of distrustful mutual observation. The key to success was cautious, considerate judgement, based on the best attainable information as to one's own military, financial, and political resources and those of other powers."

The cold war now being waged seems to create the same tension on an international scale that the world of ours once experienced in the past.

The technological interpretation of history teaches us that no new techniques can pave the way for industrial progress when observed historically, so long as such new techniques are not channelled through direct production processes, even if these new techniques be taken into military techniques. We cannot expect to formulate any workable solution to the impending issue of today, unless we introduce directly into production process atomic power technology, which is no other than a technique at a new stage of technical development, without committing the folly of channelling atomic power technology through the intermediary of war production, and then apply this new technique to a full utilization on the basis of a world-wide planned program. The question of "Bread or Gun" can be solved to our satisfaction only when it is taken up as an important aspect of the issue to be solved by the united action of the entire mankind at this turning point of world history.

6. *Final Solution.*

The atomic power technology of today, when embodied in the

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[15]) August Meitzeen, History, Theory and Technique of Statistics. Translated in English with an introduction by R. P. Falkner, Phil., 1891, P. 19.

shape of material things as production means, will have a far-reaching effect on the status of mankind, whether it be harnessed to a manufacture of atomic bombs or it be utilized for peace-time productive ends. We find, however, that atomic power technology is now being employed exclusively for the manufacture of atomic bombs. This is a sorry state of affairs. Atomic power technology today poses as a ghastly phantom, constituting a threat most devastating to mankind.

On the other hand, atomic power technology may be embodied in the shape of material things as production means, thereby acting as the bones and muscles of production, and through the medium of atomic power technology, the world may come to organize an economic society. Should this become a reality, our world will then emerge as a new historical society. Moreover, modern technical advance has reached such a stage as to make possible as well as necessary a new planned production, going through the corresponding process that "verlag" once underwent in its development.

Let us again refer to Mannheim's writings for further elucidation. [16]) Mannheim, diagnosing our time, comments most aptly on social technique, by revealing before our eyes that "We are living in an age of transition from laissez-faire to a planned economy." He further envisages:

> "We are all in the same boat — Germany, Russia, Italy, as well as Britain, France, and U.S.A. Although in very many respects still different, we are all moving in the same direction towards a kind of planned society. The recent change from democratic government to totalitarian systems is due not so much to the changing ideas of men as to changes in social techniques. Social techniques limit the direction in which modern society can develop.
> The nature of the social techniques is even more fundamental to society than the economic structure or the social stratification of a given order. By their aid one can hamper or remould the working of the economic system, destroy social classes and set others in their places.
> The most important thing about these modern techniques is that they tend to foster centralization and, therefore, minority rule and dictatorship. Where you have bombs, aeroplanes and a mechanized army at your disposal, telephone, telegraph and wireless as means of communication, large-scale industrial techniques and a hierarchic bureaurratic machinery to produce and distribute commodities and manage human affairs, the main decisions can be taken from key positions. The gradual establishment of key positions in modern society has made planning not only possible but inevitable."

Thus, if you leave this situation to chance, it is possible that the system of "verlag a la moderne" may be reinstituted on a world-wide scale. In this sense, a world bank or a U.N. armed force

16) K. Mannheim, Diagnosis of Our Time, London, 1947, Chapt. 1.

should be planned with caution and far-sighted vision. What is important to emphasize here is that man alone can assume leadership in the employment of social techniques. As the old Japanese proverb says, "Fools and scissors need fine handling", so the utility of techniques can only be realized, depending upon how people will make use of them. Mannheim goes on to say:

> "Social techniques are neither good nor bad in themselves. Every thing depends on the use that is made of them by human will and intelligence. If they are left to themselves and develop unguarded, they lead to dictotorship. If they are made to serve a good purpose and are continually checked, if they do not master men but are mastered by men, they are among the most magnificent achievement of mankind."

After all, new techniques have made such an advance that a comprehensive planning is now being felt most imperative. We have arrived at an age when we now can achieve splendid a feat with techniques at our commend. The atomic power technology, which has made its debut as the apex of technical achievement, will make possible as well as necessary a formulation of a world-wide planned program for its full utilization.

As was warned by Prof. Ikuo Oyama of Waseda University in the January, 1948, number of the Japanese magazine "Kaizo" (The Reconstruction), "Mankind today stands at the crossroads. Atomic power may bring to mankind the greatest happiness when applied in one direction and drag mankind into the depths of fatal disaster when appplied in another direction". Faced with this impending critical stituation, we need a real leadership, capable of making the best of the most powerful technical invention for the benefit of humanity. To be able to mobilize atomic power technology may be interpreted to mean that man holds mastery of techniques, but as the previously quoted statement, issued by the Emergency Committee of Atomic Scientists, takes full cognizance, unless man endeavors to co-exist and co-habit in peace, our society is to be doomed to ultimate annihilation and man will then be controlled by atomic power and will become its slave.

To speak of a man's mastery over techniques is to mean that he can utilize techniques at will. He can make his own environment serve him only when he succeeds in adapting himself to the existing environment through the medium of techniques, but we are fully conscious of the fact that man creates his own environment, by which he is being remade in turn. Neither self-centered individual wishes nor group desires should be tolerated, which point cannot be too much emphasized. When atomic power technology is to be embodied in the bones and muscles of social production and when an economic society, embracing the entire

population of the world, is to be constructed through the intermediary of the above bones and muscles of social production, the coming of a second industrial revolution can be anticipated. In this manner and only in this manner alone, atomic power technology can limit the direction in which modern society can develop at all. If I be permitted to describe this point after Mannheim, such course of social development is due not so much to changing ideas of men as to constant changes in the process of techniques. There is no other way than this in setting a course corresponding to the direction of development for a new formation of a coming society. It is to be admitted that man becomes a master of techniques only within the bounds of the above limitations. On this basis alone can a man's mastery over techniques serve our just purpose. Herein lies a part played by men who are realistic enough to adapt themselves to new environment artificially. In so doing, human conduct is divested of selfish motives and becomes objective. Only then man becomes a master of himself.

Such being the case, the course that our historical process treads has its own limitations. If it is true that "Our society will be doomed to ultimate annihilation in this age of atomic power, unless men endeavor to co-exist and co-habit in peace", it is self-evident that the course we are to follow could not be the one which would lead us to the folly of a war. The common welfare of humanity should be served by new techniques which limit the direction of historical development. The development of modern techniques therefore has made a planned society not only possible but inevitable, as was priviously pointed out by Mannheim.

In addition to this, atomic power technology, which represents the highest degree of technical development ever known, makes a world-wide planned society both possible and necessary. Whether we wish it or not, a historical society to come will have common intermediary production instruments, in which atomic power technology is embodied in the shape of material things.

At the same time, the development of atomic power technology will make possible a further exploitation of natural resources and utilization of new raw materials. This will have a decisive significance in the shaping of a society to come. Through the utilization of techniques, new instruments are created. While instruments are made out of natural things other than human body so as to supplement and strengthen the human body that is after all another kind of nature's tool, natural things are turned into natural resources and raw materials through artificial adaptation to nature. This bears a very important significance in the progress of history. In this

connection, Max Weber is prepared to say as far as follows: [17])

> "If the revolution of labour tools had been confined to the development of labour tools alone, modern capitalism might not have been made its appearance in its proper form we find today. The use of coal and iron was decisive of bringing victory to capitalism."

This is simply because modern techniques have been successful in converting external nature, such as coal and iron into useful natural resources or raw materials for induction into production process. The same can be said of the earth that is the original larder for human existence, and the original arsenal of the instruments of labor, as well as an instrument of labor by itself. The earth as such can be brought into production process by artificial adaptation to the earth that is external natural environment.

In view of the foregoing, any planned society to come should be so constituted as to serve the common welfare of mankind on a universal scale through the utilization of natural resources and the earth that can be exploited by atomic power technology. To achieve this end, natural resources and the earth of the world should be utilized for the entire mankind, for which its social cooperation is required.

In this stage of new technical development, nations and peoples will be able to cope with a new situation on a universel scale only when they succeed in unifying on a worldwide basis the working cooperative effort of the constituent members who are assigned to play specific parts within the confines of their respective national boundaries.

Once I had occasion to discuss in this journal about the importance of "Kyodo-shugi" or "cooperativism [18]). The idea of "cooperativism" may be conceived in response to the demands of world history and should be made applicable to the entire human race. Only through "cooperativism" production process will make advace consistent with the development of new techniques. An economic, social, and political plan on a universal basis, demanded of history, will then become possible. In this setting alone, the final solution for solving the problem of "Bread or Gun" is expected to be worked out. This ultimate goal is exceedingly difficult of attainment, but we should at least exert our utmost effort towards the materialization of this very objective.

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17) Max Weber, Wirtschaftsgeschichte, München, 1923, S. 261

18) T. T. Tokoyama, Public Finance, 1953, No. 3, P. 312.

DU PAIN OU DES CANONS

(Selon l'interprétation Technologique et Historique)

PAR LE PROFESSEUR TSUNSABURO TOKOYAMA

RESUME

De nos jours, les dépenses militaires sans cesse en énorme augmentation, exercent une forte pression sur les finances et elles absorbent même l'argent de la masse populaire nécessaire à sa subsistance.

Cet état de chose ouvre une alternative commune à divers pays du monde: „du beurre ou des canons". Et pour un pays défavorisé en ressources naturelle comme le Japon, cette alternative prend la forme plus aigue de „du pain ou des canons". D'ordinaire on a tendance à envisager cette question en comparant les dépenses militaires avec le budget de l'Etat ou avec les ressources de la population. Mais ce n'est pas ainsi que nous voudrions procéder. Ce que nous entendons faire c'est pousser nos investigations jusqu'aux causes fondamentales qui nous ont mené dans semblable conjoncture.

A notre avis, ce n'est pas là un problème spécial à un seul pays et il ne provient pas non plus du fait qu'un pays en particulier aurait mal pris ses dispositions financières. En effet il s'agit d'une question qui s'est répétée au cours des changements historiques du monde. Imaginons un médecin expérimenté qui examine un malade: il diagnostique sa maladie à l'aide des enseignements pratiques acquis par ses longues expériences cliniques. Nous essayerons de même d'examiner la situation présente d'après nos expériences dans le passé. Certes, un événement historique n'apparaît qu'une fois et ne se répète pas. Néanmoins il y a dans le cours de l'histoire des époques qui se correspondent et en les comparant les unes aux autres nous pourrions obtenir une base pour juger du nouvel état de choses.

L'époque actuelle ne correspond-elle pas à celle qui a couru entre la fin du moyen-âge et le début des temps modernes? L'augmentation considérable des dépenses militaires et les difficultés financières dont on parle beaucoup aujourd'hui et qui exercent une forte pression sur la vie des peuples ne sont-elles pas dues à l'avancement de la technique militaire? Ce fait n'est pas sans équivalent dans l'histoire. Par exemple, les armes faites à la main au moyen-âge, telles que flèches, lances, sabres, épées, etc. ont été remplacées par les armes modernes comme fusils et canons.

Cette modernisation a entrainé un grand changement dans la

tactique, la statégie et aussi dans les méthodes d'instruction militaire. En outre, l'organisation militaire a été rénovée. La guerre tendait à se dérouler sur une plus grande échelle et à se prolonger plus longtemps.

Voilà pourquois les demandes d'armes et de munitions ont énormément augmenté tandis que l'économie qui devait satisfaire ces besoins demeurait soumise à la technique du moyen-âge.

Cette technique arrièrée rendait impossible de pourvoir aux besoins militaires sans cesse croissants de sorte que les dépenses militaires atteignaient un niveau trop élevé comparativement à la puissance économique qui devait les prendre en charge. De là cette pression sur les finances.

A l'heure qu'il est on s'empresse d'adopter pour les besoins militaires la technique atomique, technique la plus moderne, et cela donne derechef naissance à des changements de tactique, de stratégie et de méthode d'instruction militaire et à l'élargissement du champ de la guerre. Les besoins militaires s'étant subitement accrus les dépenses militaires constituent un fardeau trop lourd, pesant sur l'économie qui a la charge de les payer. Les finances souffrent sous la pression de ces dépenses et celles-ci absorbent même les fonds de subsistance de la population.

D'après Werner Sombart, aux 17ème et 18ème siècles les dépenses militaires intervenaient pour 60 à 90 % au moins dans les dépenses totales du pays chez les principaux états d'Europe, c'est-à-dire en Espagne, en France, en Angleterre, etc.... Et à l'heure actuelle aux Etats-Unis, dont on apprécie beaucoup les finances modèles, la proportion est d'un peu moins de 60 % mais a dépassé 70 % si nous comptons les fonds d'assistance que ce pays fournit aux états étrangers, fonds de défense et de sécurité au sens large. Nous ne parlons pas ici des finances des pays bénéficiaires de ces capitaux d'assistance américains, car de ce fait elles ne méritent plus d'être qualifiées indépendantes. Ne pourrions-nous pas vérifier par là si aujourd'hui par rapport à autrefois la proportion des charges militaires n'a pas varié dans les dépenses totales d'un pays? Et ce phénomène ne doit-il pas être attribué à l'avance de la technique militaire?

Or l'accroissement des besoins militaires a reclamé à l'économie populaire la production de matériel de guerre, ce qui a pour effet d'accélérer la modernisation de la technique. Cela veut dire que l'économie a dû faire face à la modernisation de la production par l'intermédiaire de celle de matériel de guerre. Ainsi avons-nous observé peu après une rèvolution industrielle et quand l'économie a découvert les procédés de la technique moderne au sein des instruments de production, le problème a enfin pu être résolu. Il

semble aujourd'hui une fois de plus que nous allons traverser les mêmes conjonctures.

Depuis le 16e siècle nous avons en effet dû passer par des siècles dits „de guerre" pour voir se moderniser la production. Il ne faut plus commettre la sottise de réitérer ces siècles de guerre. Nous ferions bien de procéder sans hésitation à l'utilisation pacifique de la technique atomique et d'ouvrir la voie à une seconde révolution industrielle sans emprunter le détour de la production militaire. C'est ce qui nous importe le plus. En définitive nous ne saurions agir autrement pour résoudre la fameuse alternative „du beurre ou des canons" ou „du pain ou des canons". *L'Emergency Committee of Atomic Scientists* des Etats-Unis prévoit un anéantissement du monde si nous ne déployons pas tous nos efforts pour co-exister en paix à notre époque atomique. Si cela est vrai, utiliser la technique atomique pour les besoins pacifiques serait le meilleur moyen de répondre aux exigences de l'histoire dans les circonstances présentes.

Gustav Schmoller a fait remarquer que la politique régionale et territoriale d'autrefois a été remplacée par une politique à l'échelle étatique et nationale, de sorte que la société et son organisation, comme l'Etat et son régime ont été réformés de fond en comble. Toutefois il est maintenant nécessaire que nos nous efforcions de remplacer une politique étatique et nationale par une politique universelle visant au bonheur de l'humanité toute entière et de réformer à nouveau complètement la société et son organisation ainsi que l'Etat et son régime. De cette manière nous parviendrons à résoudre définitivement le problème „du beure ou des canons" ou „du pain ou des canons". Il va sans dire que le chemin à parcourir est bien long et barré de pas mal de difficultés. Néanmoins il est absolument nécessaire que nous nous frayions cette voie glorieuse.

L'IDEE DES FINANCES PUBLIQUES ET DE LA SCIENCE DES FINANCES

PAR FERNANDO SAINZ DE BUJANDA
Université de Madrid

I. *Délimitation de notions. Finances Publiques et Science Financière.*

On a écrit souvent qu'il n'est pas possible d'énoncer la définition d'une science sans avoir analysé préalablement l'ensemble des questions que cette science comporte. La définition n'est, en effet, qu'une synthèse suprême de la problématique générale d'une discipline. Mais il est également indéniable qu'une bonne définition mise au seuil d'une discipline, possède la vertu d'y guider les pas de l'homme studieux, de signaler les limites ou frontières de son parcours et d'éclaircir, en somme, le caractère particulier des thèmes sur lesquels son attention va se fixer. De telle sorte que la définition est, d'une part, une synthèse des connaissances déjà acquises, et d'autre part, la boussole qui marque la direction des recherches. Ce second aspect, si important en toutes les disciplines, possède une transcendance suprême quand il s'agit des sciences nouvelles, en gestation. En effet, quand une nouvelle branche du savoir manifeste sa présence dans le vaste monde de la science, un des périls qui peuvent menacer le plus son développement et sa vigueur est l'indétermination de son but. Si l'on ne marque pas d'une manière précise le contour de réalité sur lequel cette nouvelle science doit nous apporter un ensemble cohérent de connaissaices, on risque de faire stériles les recherches ou bien que celles-ci, au lieu de nous éclaircir le but de la nouvelle science, soient projetées sur un genre de questions qui correspondent à une autre sorte de savoir.

La science des Finances subit, depuis son origine, ce grave mal. Pour le comprendre il n'est rien de meilleur que d'éclaircir préablemente ce que l'on considère comme Finances Publiques. L'homme, une être social, développe ses activités dans des groupes ou associations. L'une d'elles, la principale, c'est l'Etat. Les individus assemblent leur propre existence dans le corps politique, à travers duquel ils atteignent la réalisation d'une série de fins ou de desseins, ou, si l'on prefère, la satisfaction d'une gamme de besoins qu'ils ne pourraient atteindre par leurs efforts individuels et isolés. Pour cela ils prêtent leur aide personnelle à l'autorité publique et ils remettent à l'Etat, gérant des intérêts collectifs, une fraction des moyens économiques dont ils disposent pour satisfaire leurs nécessités individuelles. L'Etat, à son tour, mène à bien ses directives

politiques, ou si l'on prefère, il satisfait les besoins collectifs avec les moyens matériels qu'il reçoit des économies privées. Voilà, à grands traits, l'exposé de la notion habituelle et courante des Finances Publiques. Celles-ci se dédoublent en deux facettes: d'un côté, les recettes de l'être public provenant des économies particulières; de l'autre côté, les dépenses publiques au moyen desquelles l'Etat satisfait les besoins ou mène à bien ses fins par la réalisation des services publics. Quand nous voulons énoncer, indépendamment de tout but scientifique, une définition de ce morceau de réalité que nous appelons les Finances, il nous faut dire qu'il s'agit de l'ensemble des recettes et des dépenses de l'Etat et des autres êtres publics qui s'y trouvent insérés. Dans le Droit positif espagnol (art. 1er de la Loi de Comptabilité du 1er Juillet 1911) les Finances Publiques sont envisagées du point de vue réel, mais limité au côté actif, des recettes. D'après ce précepte, les Finances Publiques se composent de toutes les contributions, impôts, biens, valeurs et droits appartenant à l'Etat. Si l'on ajoute à cette énumeration des recettes les dépenses, la description des Finances Publiques, comme *phénomène réel,* se trouvera presque parachevée.

Ainsi donc, en partant de cette réalité, on a dit que le science des Finances ou Science Financière, se compose de l'ensemble de lois et principes qui régissent celles-là dans leur ensemble. De telle sorte que, d'après cette orientation, le but de la Science des Finances serait les Finances réelles.

C'est précisement ce grave mal que la Science Financière a pâti, depuis son origine. Parce que, en effet, quand il s'agit de rechercher les principes ou règles qui régissent le phénomène financier réel — c'est-à-dire, ce que les Finances sont et ont été en la réalité historique — la principale difficulté contre laquelle on se heurte réside dans le fait que ce phénomène, apparemment unitaire, offre cependant une variété de facettes ou d'aspects, dont chacun apparaît régi par des principes ou des motifs d'un caractère différent.

D'une part, l'Etat, prototype du groupe politique ou d'association humaine pour satisfaire des besoins d'une manière accordée, doit développer un certain genre d'activité économique moyennant laquelle il puisse satisfaire ces besoins. Et je dis activité *économique* parce que, étant donnée la pluralité des fins que l'Etat doit accomplir et le manque de moyens dont il dispose normalement, il lui faut appliquer un critérium économique qui consiste dans le choix rationnel du moyen adéquat à l'éxecution du but proposé. Mais il arrive, d'une autre part, que la volonté politique ne s'inspire pas, sur le plan historique, dans des considérations purement économiques. Quand l'Etat agit, il ne le fait presque jamais en se guidant par un calcul économique, c'est-à-dire en se souciant de

satisfaire jusqu'au maximum les besoins ressentis avec un sacrifice minimum. Bien au contraire, une autre suite de facteurs — intérieurs et extérieurs, sentimentaux, réligieux ou moraux... — peuvent provoquer dans la sphère politique une conduite anti-économique. Il est d'ailleurs connu que depuis l'avènement de l'Etat de Droit, l'action du Pouvoir Public dans la sphère économique, ainsi que dans les autres, reste soumise à une normalisation que le Pouvoir même, par auto-limitation, établit. Et en continuant cet ordre de considérations, on remarque aussi que l'action économique de l'Etat doit s'adapter à des techniques appropriées à la structure du pays, à son organisation administrative, à la psychologie de la population etc. Et tout cela mène à cette conclusion: les Finances, comme phénomène réel, n'offrent pas à la connaissance scientifique un seul aspect, mais, comme nous avons déjà dit, une pluralité de facettes d'un caractère hétérogène. Voilà pourquoi, la science de la Finance a avancé péniblement et, même aujourd'hui, malgré l'impulsion qu'elle a acquis dès la fin du dernier siècle, elle se heurte contre ce nouvel obstacle à son développement qui est la prétention de certains écrivains s'obtinant à construire un ensemble unitaire de connaissances sur les matières hétérogènes composant le phénomène réel des Finances. Il est donc nécessaire de délimiter dans ce phénomène, qui est un et multiple, *l'aspect exact qu'il faut étudier dans la théorie financière.*

II. *L'autonomie de la science financière.*

Cette délimitation est, donc, inexcusable. Mais comment y parvenir? PARETO a écrit („Trattato di Sociologia Generale" Firenze, 1915, Vol. I. p. 1) qu'on ne peut obtenir en aucune science. pas même en la mathématique, une définition exacte „parce que l'objet de notre connaissance n'est divisé en parties que pour notre propre convenance et qu'il varie avec le temps". Cependant,comme FASIANI fait noter à bon droit („Principii di Scienza delle Finanze", Torino, 1951, p. 1), quand une science a atteint un degré notoire dans son développement et sa systématisation il se produit un certain accord entre ses adeptes pour marquer cet objet avec des fins approchantes et l'on dit alors qu'il s'agit d'une science autonome, non parce qu'elle le soit en elle-même, c'est-à-dire parce qu'elle soit étrange à toutes les branches du savoir, mais simplement pour signifier que la science susnommée s'occupe de certains phénomènes et de certaines uniformités que l'on note comme typiques ou caractéristiques par leur qualité et par leur façon de se manifester.

Voilà un point de départ logique pour définir ce que l'on doit

considérer comme science autonome. L'autonomie ne veut pas dire indépendance ou isolement, parce que toutes les connaissances humaines s'entrelacent et composent la science; l'autonomie se produit simplement quand une branche du savoir retombe sur un objet possédant des contours propres et définis et montrant une certaine uniformité. Sans cette uniformité, les notions seraient hétérogènes; et chacune devra s'embrancher dans la discipline qui lui corresponde, d'après sa nature.

Il faut songer au phénomène financier. Dans la vie réelle, comme nous avons déjà dit, ce phénomène contient des élements d'un caractère hétérogène. Les plus importants sont l'élément économique et l'élément juridique, tous deux guidés par la volonté politique de l'Etat qui marque les fins à l'obtention desquelles s'adresse l'activité financière en son ensemble. A son tour, il est possible qu'à l'homme studieux lui intéresse connaître la conduite réelle des Finances Publiques, leur physionomie historique ou, au contraire, qu'il tâche de rechercher les lois qui régissent le phénomène financier dans ses dimensions économiques, abstraction faite de sa projection historique concrète. Comment est-il possible que des desseins si différents puissent se réaliser dans l'enceinte d'une science unitaire? Ni l'objet, ni le but de la connaissance qu'on souhaite sont les mêmes, ni les méthodes employées peuvent être identiques, ni les connaissances obtenues dans chacune de ces hypothèses peuvent être réduites à un système. Il faut donc conclure qu'il sera nécessaire de déterminer pour qu'on puisse prêcher l'autonomie de la science financière, quelles sont, comme FASIANI le fait noter, les uniformités qui, dans le phénomène financier, intéressent la science des Finances.

III. *La délimitation des éléments. Les facteurs politique, économique et juridique dans le phénomène financier.*

Les directrices de la vie politique marquent à chaque moment historique et pour chacun des Etats des fins à accomplir. Ces fins ont été atteintes à travers le temps d'une façon déterminée. La science qui s'occupe de reconstruire l'événement réel des phénomènes financiers, devra être forcément une science *historique*.

La vie financière réelle coule, à son tour, dans le lit qui lui est tracé par les directives élaborées et imposées suivant la forme établie dans la Constitution politique de l'Etat. L'ensemble de règles et de principes présidant à cette disposition de la Finance constituera le but propre d'une discipline *juridique*.

Mais il reste dans le phénomène financier une dimension d'une importance capitale: la dimension économique. Si l'homme individuel et isolé tâche de satisfaire un certain genre de besoins, d'après

une forme concertée, c'est-à-dire à travers le groupe politique, il sera licite à l'esprit humain de s'efforcer de rechercher les lois ou les principes qui président l'action économique du groupe politique pour l'accomplissement de ses fins ou l'assouvissement de ces besoins. Il faut bien remarquer que nous nous sommes écartés du terrain normatif et du terrain historique. Il ne s'agit pas de préciser la nature des règles déterminant comment l'activité *doit être*, parce que cette recherche est propre au Droit; nous n'essayons non plus à découvrir comment les institutions financières *ont été* réellement, parce que cet étude appartient à l'histoire. On tâche seulement de construire un *schéma idéal*, une théorie pure qui explique comment et avec quels effets, quels que soient les buts que le groupe politique poursuive, celui-ci tâche de disposer des moyens économiques pour l'accomplissement de ces buts. Ainsi posée la question, le problème de la déterminantion des fins perd toute transcendance: il devient, comme beaucoup d'auteurs ont dit, une simple „donnée". EINAUDI, par exemple („Principii di Scienza delle Finanze", Torino, 1949, p. 1) a écrit que, à mesure que la convenance d'avoir soin de certains besoins au moyen de l'organisation par l'Etat augmente, les moyens qu'on y emploie sont de plus en plus différents de ceux qu'on emploie dans l'économie privée, et il centre toute son attention sur cette diversité des moyens, se souciant à peine de déterminer quelle est la nature des besoins publics et quels sont les traits qui les distinguent des besoins privés. Cette attitude indifférente vers le nature des besoins que l'activité financière satisfait, n'est pas partagée par tous les auteurs, puisque certains d'entre eux s'empressent de chercher des criteriums objectifs de différentiation entre les besoins publics et les privés. Mais ce qui est certain c'est que, de même si l'on prend en considération que si l'on n'en tient pas compte de ce problème et si l'on y parvient à une solution ou à une autre, *il est possible de délimiter idéalement comme objet de connaissance les lois qui régissent l'action économique des êtres publics* pour satisfaire les besoins collectifs, en partant de l'hypothèse que ces besoins sont déjà connus et parfaitement définis. Or, la discipline qui s'occupe d'étudier ces lois rapportées à un emploi alternatif de moyens courts pour une pluralité de buts, doit être une discipline économique; elle sera *l'économie financière*.

Voilà, à grands traits, une tripartition de disciplines dont l'origine est dûe à la pluralité d'aspects du phénomène financier: Histoire financière; Droit financier; Economie financière.

IV. *L'économie financière ou théorie économique des Finances. Son concept et sa nature.*

J'ai tâché de montrer dans les paragraphes précedents, de la

manière la plus ciaire possible, le raisonnement logique qui mène au scindement de la science des Finances en trois disciplines qui, par suite de la particularité de leur objet, méritent de s'appeler autonomes. Le concept de l'histoire financière et du Droit financier a été ci-dessus tracé en ses grandes lignes. Il convient, en revanche, de faire quelques considérations sur le concept et la nature de l'économie financière, nous permettant d'établir, finalement, des conclusions sur ce thème.

L'économie financière ou théorie économique des Finances a sa justification dans le besoin d'isoler, en dedans du phénomène financier, l'un de ses aspects les plus caracteristiques, bien qu'il ne soit pas exclusif. En tâchant de l'expliquer nous ne prétendons pas, certainement, tracer une representation achevée de ce que ce phénomène puisse être, mais seulement d'énoncer un assemblage de principes cohérents sur une de ses facettes les plus typiques. Le professeur NAHARRO („Lecciones de Hacienda Pública", Madrid, 1952, p. 12) a fourni des raisons très convaincantes sur la convenance d'agir de cette façon: „La théorie — écrit-il — qui expliquerait la conduite économique des groupes politiques en tenant compte seulement des facteurs économiques, n'éclaircirait pas *toute* la réalitè des groupes politiques, puisqu'elle mépriserait les élements de trouble que, dans les jugements économiques — qui ne se prononcent que sur l'application à des buts divers des faibles moyens — imposeraient les facteurs politiques; mais aucune réalité peut être expliquée entièrement par une théorie et, par conséquent, ce but ne pourrait être atteint non plus — et elle romprait, d'ailleurs, avec le principe *d'homogéneité de l'objet de la recherche,* par la théorie qui prétendrait expliquer la réalité de la labeur du groupe, en tenant compte, à la fois, des causes économiques et des causes politiques ou d'un autre genre". Ce même Professeur, adhérant à la doctrine de la neutralité de la science financière, déclare que „la théorie financière commence son travail quand les buts ont déjá été établis par décision collective, en analysant les procédés les plus économiques pour y pourvoir".

Cela dit nous pensons que l'objet de l'économie financièère a été délimité et cette discipline encadrée dans les sciences économiques. Mais en arrivant à ce point il convient de reporter notre attention aux considérations exprimées au commencement de cet article. En proclamant le caractère économique de la science des Finances, on ne proclame pas, en même temps, que l'activité financière réelle des Etats concrets, c'est-à-dire sur le plan historique, s'inspire toujours des critériums économiques. Le Professeur PUGLIESE, juriste excellent, l'un des fondateurs du Droit Finacier, a vu avec une entière clairvoyance que l'activité financière réelle

possède une substance politique, et cette observation lui a servi à fonder le Droit Financier, la nouvelle discipline en gestation. Mais, par contre, il en a extrait une conclusion erronnée en niant la neutralité de la science des Finances, parce que, en proclamant cette neutralité on ne fait qu'adopter une attitude méthodologique d'un caractère scientifique mais on n'affirme pas une vérité historique. Pour préciser les concepts, il nous faut rappeler les idées de PUGLIESE. Le principe de l'économicité — disait-il — s'emploie normalement dans l'activité financière, mais il ne devient point le principe informateur de cette activité, de même que d'autres principes — éthiques, sociaux, techniques, juridiques — ne possèdent non plus ce caractère que l'être public utilise aussi dans le développement de celle-là. „Tous ces principes, malgré l'efficacité spéciale qu'ils acquièrent alternativement, restent toujours subordonnés au *principe politique qui domine et dirige toute l'activité financière de l'Etat.* — Il faut faire ressortir qu'il est erroné le point de vue, adopté par une partie de la doctrine financière, qui considère les buts de l'être public comme des „données de fait", puique d'après ce point de vue indépendamment de la nature de ces buts, l'être public visera toujours à les atteindre adoptant le critérium du calcul économique. Ce point de vue serait absolument exact si ce qu'on prétend par son moyen c'est de mettre en relief le caractère instrumental de l'activité financière, et supprimer les soucis des fondements politiques, éthiques ou sociaux des buts que l'Etat se propose d'accomplir mais il est inacceptable si l'on tâche par ce moyen de niet le caractère politique de l'activité financière". Après ces considiérations préliminaires PUGLIESE développe sa théorie dans les termes suivants: La nature politique des buts de l'Etat confère forcément une nature politique aux procédés adoptés pour les atteindre puisque, quoique, comme il est très possible, l'être public s'en tienne dans le développement de son activité financière au principe de la convenance économique mutuelle, *sa décision n'est pas le fruit d'un calcul économique pur* mais tout simplement d'un calcul politique, qui ne change pas si l'Etat, dans le cas concret, utilise des critériums économiques seulement parce qu'il ne trouve pas des raisons politiques qui le fâssent adopter un critérium différent". („Corso di Scienza delle Finance", Padova, 1938).

Les paroles transcriptes nous servent à ponctuer de nouveau le problème concernant l'objet de la science des Finances. Il est certain — comme PUGLIESE l'affirme — que l'activité financière réelle est dominée par des principes politiques et que la conduite des Etats n'est pas le fruit d'un calcul économique pur. Il serait permis de déduire de ce raisonnement, comme conséquence, que l'activité financière possède une nature politique et que ce caractère exerce

une influence sur les principes inspirateurs de l'ordination juridique qui la règle. *Mais ce raisonnement ne démontre point qu'il soit impossible de construire une théorie économique des Finances.* Une telle conclusion ne serait pas justifiée, parce que la théorie que l'on expose n'essaie pas d'expliquer la conduite réelle des Etats dans la sphèère économique mais les lois qui président à cette action: des lois qui serviront à nous découvrir les effets produits par une conduite déterminée, quels que soient les buts dont elle s'inspire.

V. *L'objet de la Science des Finances.*

Tout ce qui a été exposé précedemment avait pour but de montrer que le phénomène financier présente une pluralité d'aspects qui ne peuvent pas constituer la matière d'une seule discipline scientifique. Quel sera donc le contenu de la Science Financière? Faudra-t-il proclamer l'inexistence de cette discipline? A la rigueur, pour répondre à ces questions il convient de distinguer deux groupes de disciplines scientifiques: les disciplines *autonomes* et les disciplines *informatives* ou *informatrices.*

Les disciplines autonomes sont celles qui ont un objet de connaissance unitaire et substantif et le recherchent aves une méthode propre.

Les disciplines informatives, par contre, sont celles qui mêlent une série de connaissances hétérogènes sur des aspects divers d'un même phénomène. Ces disciplines possèdent un caractère scientifique parce qu'elles systématisent les connaissances acquises sur un secteur bien délimité de la realité; mais elles ne sont pas autonomes parce qu'elles analysent des aspects substantiellement divers d'une même réalité et elles y emploient des méthodes différentes.

Or, cette classification des sciences résout, à mon avis, le problème relatif au concept et au contenu de la Science Financière. En effet, la Science des Finances n'est pas une discipline autonome parce que les espects — politique, économique, juridique et tecnique — du phénémène financier possèdent une substantivité et ils exigent qu'on les examine avec des méthodes propres. Mais la Science des Finances est une science informative puisqu'elle a pour objet un morceau bien délimité de la réalité — l'activité financière des êtres publics — et il n'y a pas d'obstacle, bien au contraire il est très convenable — à réunir et à onrdonneer les connaissances obtenues dans les disciplines autonomes financières. Cette intégration de connaissances nous permet d'obtenir une vision totale du phénomène financier et, surtout, d'orienter la politique fiscale.

J'énonce, en conséquence, les conclusions suivantes:

1°. La nature complexe du phénomène financier où se croisent et s'entremêlent des élements hétérogènes, empêche ce phénomène de constituer en son intégrité l'objet unitaire d'une science autonome.

2°. Il est nécessaire de rechercher avec des méthodes propres chacun des aspects du phénomène financier, en donnant ainsi origine à des disciplines autonomes parmi lesquelles il faut faire ressortir l'Histoire Financière, le Droit Financier et l'Economie Financière.

3°. L'Economie Financière n'a pas besoin de mépriser, par le seul fait d'être une discipline économique, le facteur politique des Finances Publiques. Au contraire, la méthode des „rapprochements successifs" permet de concilier ces deux facteurs sans détruire l'homogéneité de l'objet de la connaissance.

4°. Il faut prendre très en considération les observations du Professeur ARENA, au sujet du critérium recteur de l'activité financière. Le critérium de la valeur dans ses dimensions individuelle et marginale doit être repoussé pour faire place à une conception hédoniste du type politique-social.

5°. A côté des disciplines autonomes il est possible dans un but didactique et pour orienter la politique fiscale, de construire une Science des Finaces d'un caractère informateur, dont la mission consisterait à articuler et à systématiser les connaissances obtenues dans chacune des disciplines autonomes auxquelles je me suis rapporté auparavant.

THE CONCEPT OF PUBLIC FINANCE AND OF THE SCIENCE OF FINANCE

BY PROF. F. SAINZ DE BUJANDA

SUMMARY

For an exact definition of the science of finance it is essential to delimitate precisely the part of reality about which this science is to supply a connected whole of information. It is wrong to believe that public finance as a whole can be the sector of reality on which the science of finance should be based. It is essential to distinguish clearly between three different aspects of actual finance: the historical, the legal and the economic aspect. These different aspects should be studied by appropriate methods and give rise to *independent* branches of science. But besides these branches it is possible to develop, *for teaching purposes and in order to guide fiscal policy,* a financial science of an informative character, its object being to set forth in a connected way the knowledge acquired in the independent branches.

The science of finance therefore is a purely *informative* science. All efforts aiming at a true scientific *synthesis* of the various aspects of finance, which, which, by nature, are heterogeneous, lead inevitably to a failure and should be replaced by *related but indepent investigations* into the various aspects of actual finance. The basis of this argument is quite simple: there is not a single theory in the world which by itself is able to explain some piece of reality.

BOOK REVIEW/CRITIQUE

Het Belastingrecht, zijn Grondslagen en Ontwikkeling, par le Professeur P. J. A. Adriani et Me J. van Hoorn Jr. Delen I en II. Uitg. L. J. Veen's uitgeversmaatschappij N.V., Amsterdam

Le succès remporté par le chef-d'oeuvre „Het Belastingrecht, zijn Grondslagen en Ontwikkeling" (Le droit fiscal, ses bases et son évolution) de l'éminent spécialiste fiscal P. J. A. Adriani, ancien professeur de droit fiscal à l'Université d'Amsterdam et ancien directeur du Bureau International de Documentation fiscale, a été tel, qu'à peine deux ans après la parution du dernier tome (en 1950), une nouvelle édition de l'ouvrage s'est imposée.

Constatons, en passant, que le fait que l'ouvrage a été épuisé en si peu de temps, confirme, de façon éclatante, tout le bien qu'on a dit et écrit du „Droit fiscal, ses bases et son évolution".

Eu égard aux modifications profondes survenues, en matière fiscale, dans tous les pays depuis la publication de son traité, le Prof. Adriani a estimé qu'une réimpression pure et simple n'était ni indiquée ni suffisante. Aussi a-t-il remis tout son ouvrage sur le métier.

Désirant procéder à une refonte complète de son traité, l'auteur — en présence e.a. du développement récent de la jurisprudence et de la littérature fiscales; de l'importance, sans cesse croissante, attachée par les organisations internationales à l'aspect universel du problème fiscal; c'est-à-dire, en présence du travail immense nécessaire pour une nouvelle édition tout à fait à jour — s'est assuré la collaboration de Me J. van Hoorn Jr. dont il a eu l'occasion d'apprécier les qualités et la valeur au Bureau International de Documentation fiscale.

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Le but poursuivi par l'auteur, en procédant à cette nouvelle édition, reste identique à celui qu'il a si pleinement atteint par sa publication antérieure: indiquer la place et la signification du droit fiscal.

Au contraire, l'exposé même de la matière a subi de modifications notables. Ainsi, en ce qui concerne le droit fiscal international par exemple, les auteurs annoncent, dans la préface du premier volume, que ce problème fera l'objet d'un quatrième tome distinct.

Quant aux améliorations apportées par les auteurs à l'ouvrage antérieur du Prof. Adriani, elles sont très importantes et peuvent déjà être appréciées dans les deux premiers tomes qui viennent de sortir de presse. Néanmoins, l'exposé clair et méthodique, carac-

téristique de toutes les publications du Prof. Adriani, est rigoureusement sauvegardé. Au surplus, la nouvelle édition, tout comme la première, fourmille d'indications précieuses relatives à la jurisprudence et à la littérature néerlandaises et étrangères, qui facilitent considérablement toute étude plus poussée d'une question déterminée.

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Les deux volumes actuellement parus sont le résultat des travaux approfondis accomplis pendant de nombreuses années, dans les conditions les meilleures, par les deux savants néerlandais, le Prof. P. J. A. Adriani et Me J. van Hoorn Jr.

Il va sans dire que, par suite du grand nombre de théories nouvelles (ou anciennes exposées avec originalité) et de la complexité de la matière, il n'est pas possible d'en faire ici, dans le cadre forcément restreint de ce compte-rendu, une relation ou critique complète, ni d'insister suffisamment sur les mérites scientifiques et autres de ce nouvel ouvrage.

Bornons-nous, par conséquent, à dresser un inventaire — succint et même incomplet — des deux premiers volumes du „Droit fiscal, ses bases et développement".

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Le *premier tome* se divise en 4 sectons, subdivisées à leur tour en 14 chapitres.

La première de ces sections, consacrée à l'accomplissement de la tâche de l'autorité publique, comporte 5 chapitres où les auteurs passent en revue, successivement, les moyens financiers dont dispose cette autorité et les différents procédés employés par celle-ci pour se les procurer, la situation financière de quelques pays pendant la période 1945-1952, le but que poursuit l'autorité en effectuant ses „perceptions" (heffingen) et les diverses espèces de celles-ci.

La deuxième section traite de la classification et des différentes sortes d'impôts, de la division systématique et préconisée de ceux-ci (c'est-à-dire en impôts subjectifs et en impôts objectifs), des théories et des tarifs de l'impôt.

Dans la troisième section, le lecteur peut trouver des développements les plus intéressants au sujet de la législation et de l'administration fiscales.

Dans la quatrième section, les auteurs donnent d'abord un aperçu de l'évolution historique de la perception fiscale dans les autres pays que les Pays-Bas, puis un aperçu de la même évolution dans ce dernier pays.

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Le tome II, qui ne comporte qu'une section consacrée au droit fiscal, est divisé en 9 chapitres (chapitres XV à XXIII) où sont développés les problèmes suivants:

— Chapitre XV : La structure du droit fiscal.
— Chapitre XVI : Les rapports de celui-ci avec les autres parties du droit (notamment avec le droit public, le droit privé et le droit pénal) et la théorie de l'autonomie du droit fiscal.
— Chapitre XVII : La dette fiscale.
— Chapitre XVIII: L'interprétation des lois fiscales, des actes et des faits juridiques.
— Chapitre XIX : Le problème de la valeur.
— Chapitre XX : La technique de la perception de l'impôt.
— Chapitre XXI : La fraude fiscale.
— Chapitre XXII : Le contentieux.
— Chapitre XXIII: Le paiement et le recouvrement des impôts.

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Les deux volumes contiennent des données bibliographiques excessivement nombreuses et chacun d'eux est complété par 4 tables alphabétiques: une table pour les législations citées, une autre pour les auteurs et autres personnes cités, la troisième concerne la jurisprudence et les décisions administratives invoquées et la quatrième est relative aux matières traitées.

Cette présentation de l'ouvrage rend très aisées non seulement l'utilisation d'une documentation de premier ordre, mais également les recherches plus poussées. En outre, elle donne une valeur scientifique remarquable au nouvel ouvrage et le rend d'un usage réellement pratique.

Mais répétons-le, on ne peut songer à énumérer dans quelques lignes, ou même dans quelques pages, tous les mérites indubitables du „Belastingrecht, zijn Grondslagen en Ontwikkeling". Pour les apprécier à leur juste valeur, il faut lire et relire ce véritable traité de cette matière compliquée et peu attrayante, mais néanmoins indispensable, que constitue la science fiscale.

Ajoutons que tous ceux qui s'intéressent aux problèmes fiscaux attendent avec impatience la publication des deux derniers volumes.

Prof. Dr F. AMERIJCKX.
Université de Gand